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September 26, 2013

By Hand Delivery

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

RE: Columbia Water Company; Docket No. R-2013-2360798;
MAIN BRIEF OF THE COLUMBIA WATER COMPANY

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is the Main Brief of the Columbia Water Company in the above-referenced matter. Both a Proprietary version (under seal) and a Non-Proprietary version (for filing) are being provided to the Commission. Copies of Columbia's Brief have been served in accordance with the attached Certificate of Service, as well as upon Administrative Law Judge Dennis J. Buckley.

If you have any questions regarding this filing, please do not hesitate to contact the undersigned.

Very truly yours,

Thomas J. Sniscak
William E. Lehman

Counsel to the Columbia Water Company

WEL/bes
Enclosure
cc: Per Certificate of Service
Honorable Dennis J. Buckley, Administrative Law Judge (Proprietary and Non-Proprietary)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2013-2360798
	:	
The Columbia Water Company	:	

MAIN BRIEF OF THE COLUMBIA WATER COMPANY

Before Administrative Law Judge
Dennis J. Buckley

PUBLIC VERSION

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Dated: September 26, 2013

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Regulations

Statutes

Other Authorities

RECEIVED

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

I. INTRODUCTION

A. History of the Proceeding

On April 25, 2013, the Columbia Water Company ("Columbia" or "Company") filed Supplement No. 60 to Tariff-Water-Pa. P.U.C. No. 7, which contained proposed changes in rates, rules, and regulations calculated to recover an estimated annual increase in base rate revenues of $773,210.00 from customers of its Columbia Division.[1] The increase was to become effective on June 24, 2013.

Complaints against the proposed rate increase were filed on: May 15, 2013 by Mr. Vincent Collier; May 16, 2013 by the Office of Consumer Advocate ("OCA"); and on May 17, 2013 by the Office of Small Business Advocate ("OSBA"). On May 21, 2013, the Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission") entered an appearance in this proceeding.

On June 13, 2013, the filing was suspended by operation of law until January 24, 2014. Extensive informal and formal discovery was conducted by the OCA and I&E in this proceeding. The Company received in excess of 360 discovery requests and has provided over 1200 pages of information in response to those requests.

A Public Input Hearing was held in the Borough of Columbia, Pennsylvania, on September 3, 2013, which produced a transcript consisting of 84 pages, and 4 exhibits. An evidentiary hearing was conducted on September 5, 2013, which produced a transcript consisting of 118 pages, and 14 exhibits.

By Order dated July 15, 2013, Administrative Law Judge ("ALJ") Dennis J. Buckley ordered Main Briefs to be filed on or before September 26, 2013. This Main Brief of Columbia

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[1] Columbia has two divisions: The Columbia Division and the Marietta Division. This rate case is only for the Columbia Division.

is filed in accordance with that Order, and follows the outline for briefs in major general rate increase proceedings sent by Your Honor to the Parties on September 6, 2013.

B. Burden of Proof

The public utility seeking a rate increase has the burden of proof to establish the justness and reasonableness of each element of its request. This standard is set forth at 66 Pa. C.S. § 315(a), which provides:

> **Reasonableness of rates.** – in any proceeding upon motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceeding upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. §315(a).

The Commonwealth Court of Pennsylvania described a utility's burden of proof in a rate proceeding under 66 Pa. C.S. §315(a) as follows:

> Section 315(a) of the Public Utility Code, 66 Pa. C.S. Section 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the public utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.

Lower Frederick Twp. Water Co. v. Pennsylvania Pub. Util. Comm'n., 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utilities burden of proof to establish the justness and reasonableness of every component of its rate request is an affirmative one, and that burden of proof remains with the public utility throughout the course of the rate proceeding. The Pennsylvania Supreme Court has held:

> [T]he appellants did not have the burden of proving that the planned additions were improper, unnecessary or too costly; on the

> contrary, that burden is by statute on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. PUC, 382 Pa. 622, 631, 116 A.2d 738, 744 (1955).

However, a public utility does not need to affirmatively defend every claim it has made in its filing, even those which no other party has questioned, in proving that its proposed rates are just and reasonable. The Pennsylvania Commonwealth Court has held:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. PUC, 570 A.2d 149 (Pa. Cmwlth 1989); see also, *Pa. PUC v. Equitable Gas Co.,* 73 Pa. PUC 301, 359-360 (1990).

Additionally, 66 Pa.C.S. § 315(a) does not place the burden of proof on the utility with respect to an issue or adjustment that was not in its general rate case filing but rather raised or sought by another party. In such situation, the burden of proof must be on a party to a general rate increase case who proposes an adjustment to a rate sought by the utility. *Pa. Pub. Util. Commn. v. Columbia Water Company*, Dkt. No R-2008-2045157 (Final Order Entered June 10, 2009)

II. SUMMARY OF ARGUMENT

In its original filing in this matter, Columbia sought an annual increase in base rate revenue in the amount of $773,210. During the course of this proceeding, Columbia has made certain adjustments and has also agreed to accept certain adjustments recommended by the Parties. Acceptance of these adjustments does not necessarily mean Columbia believes they are correct; rather, it may mean that the Company has decided not to expend further resources to pursue them. Thus, they should not be used or considered as admissions in this or any other proceeding.

Numerous contested issues remain, however, and they are set forth and addressed in this brief in full. The bulk of the remaining disputes involve: whether certain PennVest financed plant should be given rate recognition; the allocation of additional Columbia expenses by the OCA and I&E to the Marietta Division, over and above what the Company had already allocated in the filing; and the Company's capital structure and rate of return. As more fully explained below, Columbia has fully supported all of its remaining claims and the negative adjustments by OCA and I&E should be rejected.

Both OCA and I&E have recommended ignoring Columbia's undepreciated PennVest plant, which it has included in its rate base, even though they have admitted the plant still remains used and useful in providing service to Columbia's customers. Their argument is based on the assertion that the volumetric rate, which was initiated in 1993 by the Company and OCA, and subsequently removed from the Company's tariff in 2011, was not a rate base/rate of return developed charge but was instead a surcharge that permitted recovery only of the principal and interest on the PennVest loan. The facts show, however, that the PennVest volumetric rate was not a debt-service only surcharge, but was a separate volumetric rate, set in 1993 using rate base/rate of return methodology and this ratemaking treatment was requested and fully supported by the OCA as the Commission's Order approving rate base/rate of return treatment with depreciation recognized. The rate was reconciled a few times over the years at the request of the Commission in order to meet the rate base of return rate's targeted yield. This did not, however, turn the PennVest volumetric rate into a debt-service only surcharge. Notably, both OCA's witness and I&E's witness conceded under cross-examination that they were unaware of the

1993 Order when they submitted their testimony that the rate was not rate base/rate of return but rather a policy statement type principal and interest surcharge.

The Company should be allowed to recover a fair rate of return on the undepreciated amount of its investment which is its right under standard ratemaking principles and the United States Constitution as explained in the *Hope* and *Bluefield* decisions discussed below.

The OCA primarily, and the I&E to a lesser extent, make numerous negative adjustments to the Company's expense claims based on their allocations of time and expenses to the Marietta Division over and above what Columbia had already allocated to the Marietta Division and not included in the filing. The OCA's and I&E's additional allocations, however, are not fact-based and are speculative at best. The Company's allocations are based on the general manager's first-hand knowledge of Columbia's operations and reflect the actual time spent on Marietta Division tasks. The OCA and I&E's additional allocations and associated expense reductions should be rejected.

The OCA revives its rejected arguments from the 2008 rate case to challenge the modest salaries of officers and fees for directors and recommends a negative adjustment to the claim (which is less than 2008) by converting the non-hourly or fixed salaries and fees to an hourly rate (they are not hourly employees) and then apparently using its witness' subjective notions of value or worth to the Company. The OCA witness admitted, however, that this type of evaluation has never been used or approved by the Commission. Similar salaries and fees were approved by the Commission in Columbia's 2008 rate case as within the Company's discretion and reasonable. The same result should occur here. The Company also requests that the requirement for officers who are also directors to keep ongoing time records be discontinued because it is discriminatory, an unnecessary burden to each member, creates a distracting environment, opens them up to additional legal exposure and is a requirement that no other Class A utility in Pennsylvania is required to do.

Finally, the Company has fully supported its use of its pro forma capital structure which is almost identical to its approved capital structure in its 2008 rate case. Additionally, it has fully supported its overall rate of return of 9.09% based on its use of multiple market-based cost of equity models and the additional performance factor premiums based on its acquisitions of less viable companies and exemplary management performance.

III. RATE BASE

Columbia's original claim for rate base in its filing, as of December 31, 2013, was $13, 527,774. (CWC *Statement* No. 2 at 11:14-15; GDS Exhibit No.1 at 1-17) During the course of the proceeding, the Company, in a response to discovery, discovered an error and its correction increased its rate base claim to $13,796,707. (GDS Rebuttal Exhibit No. 3 (Revised) at 3) The individual adjustments to the rate base claim resulting in the revised rate base claim are as follows:

(1) Reserve adjustment (4% CIM – PennVest Plant): **Add $339,038** (CWC Statement No. 2R at 20:12-21; GDS Rebuttal Exhibit No. 3 at 3);

(2) Cash working capital: **Add $2,688** (GDS Rebuttal Exhibit No. 3 (Revised) at 3);

(3) Deferred Federal Income Taxes: **Deduct $72,793** (GDS Rebuttal Exhibit No 3 (Revised) at 3).

A. Additions to Rate Base

1. PennVest Book Depreciation Reserve

The Company has adjusted its total depreciated plant in service from its original filing of $24,706,812 to $25,045,850. (CWC Statement No. 2R at 20:12-21; GDS Rebuttal Exhibit No. 3

(Revised) at 3) As Mr. Shambaugh explained, the reason for this adjustment is because Columbia overstated the book depreciation reserve related to the PennVest plant in service. The Company's book depreciation ($1,853,844) for this plant includes annual depreciation accruals based upon the straight-line average remaining life methodology. However, Mr. Shambaugh correctly identified that the PennVest rate was based solely on the 4% Compound Interest method during the term of the rate. Therefore, there exists a difference between the book depreciation reserve and the capital recovery through customer rates of approximately $339,038 for this plant. (CWC Statement No. 2R at 20:12-21; Tr. at 142)

The OCA alleges that the Company did not provide support for this addition. (OCA Statement 1S at 42:14-15) Such allegation is incorrect. Mr. Shambaugh explained in a discovery response to OCA-VI-2 the reasons for the change (CWC Statement No. 2R at 20:12-14), and has included full support for this change in his ATTACHMENT TO GDS Rebuttal Exhibit No 3 (Revised).

B. <u>Deductions from Rate Base</u>

1. Materials and Supplies

The Company's claim for Materials and Supplies ("M&S") in Inventory is $62,314. (GDS Exhibit No. 1 at 1-17) OCA witness Everette recommended a negative adjustment of $4,592 based on her use of a 13-month average, from January 2012 to January 2013, instead of the Company's 3-year average. (OCA Statement No. 1 at 7:4-12; OCA Exhibit AEE-1S, Schedule 1S, line 3) Ms. Everette claims that a 13-month average better recognizes the volatile nature of this account. *Id.* Company witness Shambaugh countered that if Ms. Everette considers a test year element volatile, then a larger sample of operating results would be warranted, such as the 3-year average he recommends, which the Commission accepted in Columbia's 2008 rate case. (CWC Statement No. 1 at 15:3-7)

Columbia witness Gary Shambaugh further explained that to accurately reflect a 13-month average of materials and supplies, the Company would have to close its books on a monthly basis, which it does not. (CWC Statement No. 2R at 14:18-20) Mr. Shambaugh also noted that to use a 13-month average would require the Company to count each month and price the inventory for each item that is in inventory, as that is the only way to get an accurate accounting of the inventory for that month. He explained that the company closes its books annually, which is more economical for smaller companies, and that these annual audited numbers, based on actual inventory, better represents M&S than Ms. Everette's use of monthly estimates. (Tr. at 135-136) Furthermore, small companies like Columbia do not have the wherewithal to have such a sophisticated accounting system that dovetails with both materials and supplies that would allow the Company to produce accurate numbers on a monthly basis. (Tr. at 165) Mr. Shambaugh emphasized that the 3-year average better represents what smaller companies do and has been approved by the Commission in previous cases, including Columbia's last rate case, *Pa. P.U.C. v. Columbia Water Company*, Docket No. R-2008-2045157 (Final Order entered June 10, 2009) at 29-32.

In the alternative, Mr. Shambaugh testified that if the OCA's 13-month position is accepted, the most recent 13-months, as provided in CWC Rejoinder Exhibit No. 3 (updating the response to discovery request OCA-I-7) should be used as opposed to the stale and outdated 13 months Ms. Everette used which understates M&S. Mr. Shambaugh identified that if the most recent 13 months are used, it results in an M&S inventory claim of $64,888, which is $2,574 above the Company's 3-year average, and is also above Ms. Everette's stale 13-month period. (Tr. at 136)

The OCA's negative adjustment in the amount of $4,592 should be rejected, and the Company's 3-year average should be accepted as was in the 2008 rate case or, in the alternative, the most current 13-month average should be used.

2. Cash Working Capital

The Company's original claim for cash working capital was $248,967. (GDS Exhibit No. 1 at 1-17) Based on certain adjustments made during the course of this proceeding the Company's revised claim is $251,655. (GDS Rebuttal Exhibit No. 2 (Revised) at 3) OCA has recommended a negative adjustment in the amount of $10,808. (OCA Exhibit AEE-1S, Schedule 1S) I&E has recommended a negative adjustment of $3,526 based on adjustments they have recommended during this case. The parties recognize that a final allocation to cash working capital will occur upon a Commission determination of the total O&M expense amount.

3. PennVest Plant

The Company's pro forma claim for Plant in Service is $35,003,303. (GDS Exhibit No. 1 at 2-9) Both OCA and I&E have challenged the inclusion of $4,902,136 in Plant in Service that was funded with a PennVest loan. I&E and OCA both recommend ignoring this plant, which they concede is used and useful,[2] based on their unsupported allegation that the PennVest volumetric rate, that was initiated in 1993 by the Company (and OCA), and subsequently removed from the Company's tariff in 2011, was not a rate base/rate of return developed charge and was instead a surcharge permitted to recover only the principal and interest on the PennVest loan. This allegation, as more fully described below, is unsupported by the facts, which show

[2] I&E witness Cline admitted that the facilities that were financed by the Company through the PennVest loan were used and useful in rendering service (Tr. at 177) as did OCA Witness Everett. (Tr. at 187)

that the PennVest charge was set using rate base/rate of return methodology in 1993 and this ratemaking treatment was fully supported by the OCA at the time. The PennVest charge was not a debt-based only surcharge, and OCA and I&E's attempt to turn fish into fowl, simply to remove it from rate base resulting in denying the Company its right to earn a fair return on its used and useful plant, should be rejected.

As testified to by Company witness Shambaugh, in 1993 the Company constructed $4,902,136 of fixed capital plant that included, but was not limited to, source of supply, pumping, transmission and distribution mains and customer service infrastructure improvements. The Company funded the construction by obtaining and being subject to the obligations of a PennVest loan. The Company has been recovering their investment in the PennVest plant through a volume charge applicable to all customer classes. (CWC Statement No. 2R at 2:9-16)

Mr. Shambaugh testified that in 1993, at Docket No. R-00932594, the Commission adopted, in Ordering Paragraph No. 4 of its Final Order entered June 1, 1993, the Joint Stipulation of Settlement, dated April 30, 1993, which was entered into by the Company and OCA. The Commission allowed a return-on and a recovery of (annual depreciation expense) the investment in the PennVest plant and facilities. The Joint Stipulation for Settlement on page 3, paragraph 7 (GDS Rebuttal Exhibit No. 1) sets forth the ratemaking treatment as follows:

> 7. Regarding the ratemaking treatment of Plant in Service, the Company agrees to Rate Base treatment for plant additions of $4,547,617, constituting amount attributable to PennVest funding, rather than apply a surcharge equal to the debt service on the PennVest loan. The following items are also reflected in the total revenue of increase proposed in this Stipulation: (a) the inclusion of these plant additions in the rate base, along with the return on the increase plant at an overall rate of return of 7.27%; (b) depreciation expense computed at the Company's current composite depreciation rate; (c) reflection of increased deferred income taxes.

(CWC Statement No. 2R at 13:1-15; GDS Rebuttal Exhibit No. 1) Therefore, the PennVest "surcharge" as OCA and I&E refer to it, was actually a volumetric charge applicable to all customer classes. (CWC Statement No. 2R at 2:14-16)

Furthermore, he testified that in a statement in support of the 1993 Joint Stipulation, counsel for OCA stated the following:

> The Proposed Settlement provides for an overall base rate increase of $342,508 on an ongoing basis. This lesser amount is the result of permitting the Company to recover the costs of its PennVest-financed plant additions through rate base (including the provision of a reasonable rate of return and an allowance for depreciation expense), rather than through the imposition of a debt-service based surcharge. The OCA submits that, given the size (nearly 6,000 customers) and financial condition of the Company, the Company should not be permitted to impose a debt-service based surcharge.

(Tr. 140-141; GDS Rebuttal Exhibit No. 1)

Given this clear language from the 1993 case, it is hard to imagine the OCA and I&E arguing that the PennVest rate set in 1993 was a debt-service only surcharge. While neither I&E nor OCA apparently remembered or knew about the 1993 Order,[3] when supplied with this information through the Company's Rebuttal Testimony, I&E and OCA still refused to withdraw their PennVest adjustments.

Despite acknowledging in their Surrebuttal Testimony that the volumetric PennVest rate set in 1993 "clearly intended to have the plant included in rate base <u>instead of instituting a surcharge</u>," (I&E Statement No. 3-SR at 7:16-18) (emphasis in original) and that "the company and OCA agreed to rate base treatment [in 1993] 'rather than apply a surcharge equal to the debt service on the PennVest loan'" (OCA Statement No. 1S at 39:10-12), I&E and OCA take the position that the volumetric rate was somehow transformed into a debt-service only surcharge

[3] Both I&E Witness Cline (Tr. at 179-180) and OCA Witness Everett (Tr. at 187) testified that they did not know about the 1993 Order and Joint Stipulation when they prepared and submitted their Direct Testimony.

simply because the rate base rate of return rate's targeted yield was reconciled by the Company at the Commission's request at certain times and because the Company did not include the PennVest plant or depreciation in subsequent rate case filings. (OCA Statement No. 1S at 39:12-40:15; I&E Statement No. 3-SR at 7:13-20) These revisionist arguments should be rejected.

First, under the Commission's general powers, any rate can be examined to see that it is meeting the revenue and return objective of the rate, and if necessary, adjusted. This does not magically turn a rate base/rate of return volumetric rate into a debt-only PennVest surcharge. OCA and I&E provide no cite to any case or indicate anywhere where the Commission converted the PennVest rate here from a rate base/rate of return volumetric rate into a debt-service only surcharge. As Mr. Shambaugh testified:

> Such PennVest volume rate was an unbundled rate base/rate of return rate which eventually became reconcilable. The 1997 Commission Order allowed Columbia Water to reconcile their rate, but the rate remained one developed based on rate base/rate of return. The reconciliation was to refine the rate to ensure it hit its rate base/rate of return income target.

(Tr. at 139)

Furthermore, Columbia simply followed the Commission's orders with regard to reconciliations and providing information to the Commission. (Tr. at 145) In sum on this point, these Commission-requested reconciliations of a rate of return/rate base rate did not transform the rate into a debt-service only surcharge. Moreover, the Commission cannot deny a utility return on plant it assumed the obligation to fund during the useful life of that plant.[4]

Second, with respect to the Company excluding the PennVest plant and depreciation from subsequent rate cases, Mr. Shambaugh, in response to an OCA cross-examination question

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[4] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Bluefield Waterworks Improvement Co. v. Public Service Commission*, 262 U.S. 679 (1923).

inquiring why there was no PennVest plant included in rate base during the Company's rate case filing from May 2001, explained:

> The PennVest plant was excluded for this particular calculation, because as I testified in my rejoinder testimony, there are two components to the base volume rate. This filing that I'm looking at in Supporting Schedule No. 6 is relative only to the one portion of volume rate that this filing considered.
>
> The PennVest rate was a separate rate that had already been determined, and those two rates then were combined in the Company's subsequent tariff to equal one base rate volume rate.
>
> If I would have included the PennVest in here, it would have, as I testified in my rejoinder testimony, resulted in a double recovery of that investment.

(Tr. at 163-164)

Despite I&E and OCA's continued assertion that the PennVest rate was not a rate base rate of return rate, the facts say otherwise. The PennVest volumetric rate was set in 1993 as a rate base/rate of return rate including rate base and depreciation treatment. Despite occasional reconciliation at the request of the Commission to meet its revenue target, this rate was never "transformed" into a debt-service only surcharge. Simply because that rate is no longer in Columbia's tariff does not mean the remaining undepreciated plant and facilities do not remain used and useful in providing service to the Company's customers. It does, and the fact that the Company did not have a general rate case since 2008 or 2011 until now is of no moment regarding whether such rate base is used and useful and subject to further rate recognition relative to its useful and depreciable lives. Thus, as Mr. Shambaugh testified, rate base inclusion and associated ratemaking treatment is appropriate. (CWC Statement No. 2R at 2:21-24)

I&E also makes an associated argument via its witness Ethan Cline that the Commission's policy statement at 52 Pa. Code § 69.361 "plainly illustrates that a water or wastewater utility may choose to finance plant additions through *either* rate base inclusion *or* the use of a PennVest surcharge on its customers, not both." (I&E Statement No. 3-SR at 4:25-27) (emphasis in original)[5] Upon cross, however, Mr. Cline conceded that the 1994 policy statement was intended to apply to companies who had not yet elected rate base or surcharge treatment, and Columbia's election in 1993 precedes the 1994 policy statement. (Tr. at 179)

In addition, the policy statement by its own terms does not forbid the continuance of capital recovery and return on investment for the remaining useful and depreciable life of the assets. I&E's witness essentially amends the policy statement to add a prohibition. As Columbia witness Shambaugh explained, under ratemaking fundamentals the term of a loan does not establish the basis for the service lives of the assets or the future life expectancies. (Tr. at 141) Now that the debt service has been retired, the Company simply wants to continue to claim the undepreciated amount of the PennVest plant in service.

I&E witness Cline also attempts to divert attention from the fact that the PennVest charge was not a debt-based surcharge by arguing that by implementing the charge, the Company bore no risk by taking out the PennVest loan. (I&E Statement No. 3-SR at 2:21-3:9) This statement is simply wrong. First of all, on cross-examination, Mr. Cline admitted that the ratepayers did not sign for the loan, promissory note or the pledge of accounts nor do they own the PennVest plant. (Tr. at 177)

Furthermore, as Mr. Shambaugh explained, this I&E witness Cline ignores the fact that a PennVest loan is like any other loan the Company would take out in that the risk is on the Company and shareholders, not the ratepayers. (Tr. at 143) Mr. Shambaugh continued that, Mr. Cline disregards the financial risk assumed by the Company, such as the loss of a large customer (the loan was a volumetric charge), the reduction in water use by customers. Mr. Shambaugh

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[5] OCA witness Everette also make this argument, but without directly referencing the policy statement. (OCA Statement 1S at 38:4-9)

explained that Mr. Cline failed to recognize the business risk if the plant fails, or it needs to be retired early, and the correct view to identify risk is at the beginning point of the loan, not when the debt has been satisfied. (Tr. at 142-143)

Mr. Cline's no risk argument has been refuted by other testimony on the subject. In support of the risk associated with a PennVest loan, in *Lemont Water*, OCA's witness Krauss, in OCA Statement No. 1 aptly described the risk associated with PennVest loans as follows:

> PENNVEST acts very much like a commercial lender on these projects. It frequently requires personal guarantees of stock pledges from the stockholders. It also takes a secured interest in the utility's plant. The documentation and guarantees required by PENNVEST are very similar to those which a commercial lender would require. Thus, the risk to the stockholders is the same as it would be with any other debt financing. Specifically, PENNVEST has first call on the assets of the company. Further, in many instances the stockholders have personal liability to PENNVEST in the event that the utility is unable to meet its obligations. Thus, in a strict financial sense, the stockholders of the utility are bearing risk equivalent to that which they would bear with any debt financing.

(Tr. at 144-145; CWC Rejoinder Exhibit No. 5) The notion that the Company and the shareholders bore no risk by committing to the PennVest loan ignores reality and should be rejected.

Both OCA and I&E make an argument that because a utility loan is paid off with revenues from rates that ratepayers not the utility provided the plant. As rate expert Gary Shambaugh explained, that is contrary to standard ratemaking as it is not the term of loans that determines the lifespan of a utility's investment, but rather its useful or depreciable life. He explained that if it were as OCA and I&E say, then depreciable lives would be written out of the Public Utility Code and PUC ratemaking, and bankers or lenders via loans could mandate periods over which return on and of occur. (CWC Statement No. 2R at 4-5) Here, the record itself shows that the source of monies Columbia used to pay the PennVest loan were not exclusively revenues tied to any specific portion of its volumetric charge; rather, it included as Columbia General Manager Lewis testified "[s]everal sources including draws on a line of credit/loan, monies from sales of metering information, a dividend received annually from Workers Compensation insurance, and of course, monies we receive from all our rates under our tariff." (CWC Statement No. 1R at 23:13-15)

In sum, OCA and I&E's arguments are flawed from the beginning as they rely on the false premise that the PennVest rate was a debt-service only surcharge, which it was not, and that now precludes the Company from earning a return on the PennVest plant. Both OCA and I&E's witnesses, who made such conclusion and adjustment, stated under cross that they were not aware of the 1993 Order and Stipulation with OCA that the rate was rate base, return and depreciation based. The PennVest plant was always included in the PennVest charge.[6] The remaining undepreciated plant and facilities, as both OCA and I&E admit, remain used and useful in providing service to the Company's customers. The Company is simply requesting that it be allowed to recover a fair rate of return on the undepreciated amount of its investment, which is its right under standard ratemaking principles. OCA and I&E's adjustments to remove this plant from rates should be rejected.

IV. REVENUES

A. Merchandizing Sales and Jobbing Work

OCA is recommending an addition to the Company's operating revenue for ratemaking purposes of $15,762. (OCA Statement No. 1 at 9:25-10:2); OCA Exhibit AEE-1, Schedule 1) This amount includes the sale of billing data to the Lancaster Area Sewer Authority and the Borough of Columbia, payment for assisting the Borough with turn-ons and turn-offs and

[6] In fact, OTS, now I&E argued in *PUC v. Lemont Water Company* at Dkt. No. R-912114 that it is possible to construct a surcharge that has a rate base/rate of return, which is a return of and a recovery on or recovery of built into it. (Tr. at 140-141; CWC Rejoinder Exhibit No. 4)

revenue for a damaged fence and air compressor repairs. (OCA Statement No. 1 at 8:9-13) I&E is recommending an addition to the Company's operating revenue for ratemaking purposes of $9,932. (I&E Statement No. 2 at 14:13-14; I&E Exhibit No. 3, Schedule 4) This amount is for billing data provided to Columbia Borough and Lancaster Area sewer authority. (I&E Statement No. 2 at 14:20-22)

The Company has accepted the $9,932 increase to operating revenue for the sale of billing data. (CWC Statement No. 2R at 17:10-12) The Company disagrees that the remaining $5,832 increase recommended by OCA should be included in operating revenues. As Mr. Shambaugh explained, "relative to the other items for bulk water sales and customer disconnect revenue, an average basis calculation will not reflect the lack of stability in those items. Those items are not under the direct control of the Company." (Tr. at 13-134.) Mr. Shambaugh testified that those revenues should be booked to the depreciation reserve for the respective plant items under the Uniform System of Accounts. (CWC Statement No. 2R at 17:13-17; GDS Rebuttal Exhibit No. 2). I&E witness Wilson agreed. (I&E Statement No. 2-SR at 3:4-19) Mr. Shambaugh concluded that "funds received from the sale of meters (salvage) and the damage of a fence and air compressor (insurance) must be recorded to the accumulated depreciation reserve and not recognized as revenue for book and ratemaking purposes." (CWC Statement No. 2R at 18:8-11) Furthermore, he stated that "proper utility accounting dictates that a utility should not recognized the gain or loss on the sale or disposal of fixed capital plant assets. Therefore, any adjustments necessary for the disposal of utility plant should be booked to the respective depreciation reserves." (CWC Statement No. 2R at 18:12-16)

The Company accepts the addition of $9,932 for the sale of billing data, but the OCA's additional $5,830 to revenue for the sale of meters and insurance should be rejected.

V. EXPENSES

A. Acquisition Adjustment

Columbia has claimed in its filing an amortization expense of $15,039 for the expenses incurred in the acquisition of the Marietta Gravity Water Company at Docket Nos. A-2012-2282219 and A-2012-2282221. (CWC Statement 2R at 19:9; GDS Exhibit No. 1 at 1-14) I&E did not challenge such claim. OCA witness Everette recommends elimination of this expense. (OCA Statement 1 at 17:16-18; OCA Exhibit AEE-1S, Schedule 1S, line 14) Witness Everette first claims that the Company provided no support for this claim. (OCA Statement No. 1 at 10:13-15) This is simply not true as Mr. Shambaugh testified: "In response to OCA-V-1 the Company has clearly set forth the acquisition expenses as claimed in this proceeding." (CWC Statement No. 2R at 19:2-3)

Ms. Everette then engages in a detailed legal analysis of 66 Pa. C.S. § 1327, despite stating on cross it was not her intention to offer legal conclusions, (Tr. at 188) because she believes expenses associated with an acquisition should be included in the cost paid for the utility. (OCA Statement 1S at 4:8-14) She believes the Company does not meet the Section 1327 legal test and because of this, the claim should be denied. (OCA Statement 1S at 4:18-23) The Company disagrees.

The Company is not claiming an acquisition premium under Section 1327. Company witness Shambaugh explained that the Company is simply requesting a 15-year amortization of the expenses incurred, not the price of the assets in the sales agreement that was in excess of original cost minus depreciation. (CWC Statement No. 2R at 19:9-12) At the hearing, Mr. Shambaugh further testified: "[t]he Company is not making a rate base claim for the difference between the sale price of the assets in the sale agreement and the depreciated book value of the assets. Rather, it seeks the expenses for obtaining a new franchise and the right to serve from this Commission." (Tr. at 137-138)

Witness Everette eliminates all the expenses from the filing. Mr. Shambaugh explained that, at a minimum and in the alternative, the Company's expenditures related to the proceedings to meet the requirements of the Public Utility Code; namely, for a certificate of public convenience and to obtain new franchise territory and rights of service and any related regulatory approval such as security certificates to finance the transaction for transferring the permits (such as environmental ones into the Company's name), should be capitalized. (Tr. at 138) He continued that the costs relative to the certificate of public convenience and regulatory approvals are $110,772 for legal services, $9,431.52 for consulting services, and $748.30 for newspaper publication. (Tr. at 138)

Therefore, under this alternative scenario, total capitalized investment would be $120,952 at the Company's recommended rate of return of 9.10%. This would equal an additional net operating income of $11,007. The income taxes would amount to $6,032 for a total increase in revenues of $17,039 which is higher than the Company's $15,039 as claimed in this proceeding by $2,000.

The OCA's recommended elimination of the amortized expense claim of $15,039 for the costs associated with acquisition of the Marietta Gravity Water Company should be rejected, or in the alternative, the Company's revenue should be increased by $17,039 to reflect adding that to the revised Total Measure of Value identified in the Rate Base section above.

B. Engineering Expense

In OCA Statement No. 1 pages 22-23, OCA witness Everette recommended that Columbia's claim for engineering expense, in the amount of $5,505 be moved to rate case expense based upon her speculation that the services provided must be for the current rate case. In subsequent testimony by the Company, the Company's general manager Dave Lewis disagreed with such speculation and stated that "Mr. Weigel's services include review of documents in the acquisition of the Marietta Gravity Water Company assets and for ongoing monitoring of the Commission." (CWC Statement No. 1R at 3:15-17) In apparent response she abandoned her first reason to toss out this small claim, and subsequently recommended the entire removal of this expense based on her assumption that Mr. Weigel's expenses were provided solely on behalf of Marietta Gravity. (OCA Statement 1R at 8:3-10; OCA Exhibit AEE-1S, Schedule 1S, line 15) This latest reason is wrong too.

As Columbia's General Manager Lewis explained, Mr. Weigel's expenses include ongoing monitoring of the Commission and regulatory advice in meeting Commission regulatory requirements. (CWC Statement 1R at 3:16-17) He went on to explain that Columbia is a Class A water utility and it is important that the Company stay abreast of and monitor developments at the Commission such as its public meetings, Securities Certificates filings, rulemakings, collaboratives, and legislation (such as the new future test year litigation, Security Planning and Pa One Call administration). (Tr. 110; CWC Rejoinder Exhibit Nos. 1 and 2) He further explained the other alternative would be to hire an attorney or to hire an employee to do those functions and that would cost much more. He then testified it is more economical for the Company to use a consultant with experience in regulatory and regulatory compliance matters. (Tr. at 110-111) OCA's recommend removal of the $5,505 for this expense should be rejected.

C. <u>Bad Debt Expense</u>

Columbia has claimed pro forma bad debt expense in the amount of $11,000. (GDS Exhibit No. 1 at 1-15) OCA witness Everette recommends a negative adjustment to this claim in the amount of $1,808 based on a four-year average of bad debt expense. (OCA Statement No. 1 at 24:7-21; OCA Exhibit AEE-1S, Schedule 1S, line 16) Company witness Shambaugh explained that the customer's ability to pay their bills cannot be measured in a four-year average computation, and that in the real world of utility management there is recognition that with customer rate increases, bad debt expense will likely increase because additional customers become delinquent on their water bills. (CWC Statement No. 2R at 15:19-16:2)

Mr. Shambaugh further explained that the Company's filing has a known and measurable level of bad debt expense. (Tr. at 134) He went on to explain that when figuring bad debt expense, it is his position that the Company should use audited numbers and not estimates derived from an averaging basis as suggested by the OCA. (Tr. at 134) In Mr. Shambaugh's opinion, the OCA uses a results-oriented calculation to reduce the Company's claim. (Tr. at 134)

Mr. Shambaugh testified that it has been his experience (over 40 years' experience in preparing various financial studies, including rate studies for electric, gas, water, wastewater, steam heat, chilled water, and telephone companies (CWC Statement No. 2 at 3:5-7)) that when you are dealing with rental apartments and things like that you have a higher level of bad debt expense going forward. (Tr. at 134) Mr. Shambaugh's observations and testimony were, in essence, corroborated by the public input testimony offered by the Manager of the Borough of Columbia, who testified that "The borough is an economically challenged community with a disproportionately high percentage of low-income households, senior citizens and rental housing." (Tr. at 35) The Company's position of using audited, known and measurable current numbers, instead of OCA's 4-year guesstimate is a more accurate way of predicting bad debt expense.

OCA's negative adjustment of $1,808 to bad debt expense based on four-year averaging should be rejected.

D. Allocation of Expenses to the Marietta Division

1. OCA's Allocation Adjustments

As background, OCA witness Everette makes numerous adjustments to expenses based on allocations to the Marietta Division over and above what the Company had allocated already and thus did not claim in the filing. The Company's general manager, Dave Lewis testified that the Company had already allocated an average of 8% of its employees' time to the Marietta Division; however, the specific percentage varies by employee and the specific amount of time devoted to Marietta Division tasks. (CWC Statement 1R at 2:14-3:8)

In her direct testimony, OCA witness Everette started by making a sweeping 15% allocation per noted employee but reduced that to specific percentages based on Mr. Lewis' rebuttal testimony and in some cases eliminated her adjustments altogether. (OCA Statement 1S at 12:21-37:14) The remaining expense adjustments based on allocations to the Marietta Division are specifically discussed below.

Before we begin, however, it should be noted that Columbia's allocations to the Marietta Division are based on Mr. Lewis' first-hand knowledge of Columbia's operations. Mr. Lewis testified that he is Vice President and General Manager of Columbia and he has been employed by Columbia for eight years and before that worked for ARRO Consulting, Inc., and provided engineering services to Columbia for approximately 15 years. (CWC Statement No. 1 at 1:7-17) He further testified that he is responsible for the day-to-day management of the Company and his responsibilities include oversight and management of the business office (3 employees), the distribution department (9 employees), the water production department (5 employees), and several part-time/seasonal employees. (CWC Statement No. 1 at 1:20-23) He is a licensed professional engineer and his responsibilities include engineering, permitting and management of Columbia's technical needs, as well as communication with regulatory agencies and local governing bodies. (CWC Statement No. 1 at 1:23-2:3) He reports directly to the President of Columbia; however, he also has significant interaction with the other Officers and with the Board of Directors. (CWC Statement No. 1 at 2:3-5)

On the other hand, OCA witness Everette's adjustments are not fact-based and are speculative at best. She conceded on cross that she has never spent any time observing what amount of time the Columbia employees spend working on the Marietta Division tasks. (Tr. at 205) She admitted she is not an expert on private utility water system operations, design or utility financing. She did not even attend the tour of the Company's operations and facilities requested by OCA and I&E and held on July 24, 2013. (Tr. at 190) This in no way is meant to demean Ms. Everette's qualifications as a new Regulatory Analyst; however, it is meant solely to distinguish Ms. Everette's *actual* experience with the operations of a utility, and specifically Columbia Water, with that of Mr. Lewis. Mr. Lewis works on a day-to-day basis managing the Company, Ms. Everette does not. It is simply impossible for someone who has no experience working with the water company – and who has never even been there – to make remote suppositions on the amount of time a Columbia employee spends or should spend working on Marietta Division tasks.

During the course of this proceeding, witness Everette has withdrawn some of her allocation adjustments and the remaining specific adjustments are discussed below.

2. Employee Salaries and Wages

a. Salary of the Foreman

OCA witness Everette allocates 15% of the foreman's salary to the Marietta Division resulting in a negative adjustment of $6,035. (OCA Exhibit AEE-1S, Schedule 2S, line 6) She bases this allocation on his job description. (OCA Statement 1S at 15:10-12) Mr. Lewis testified that a person's general job description is not used as a specific basis for assigning tasks. (Tr. at 107) He explained the foreman's job <u>description</u> may include tasks that get completed in the Marietta Division (in fact they get completed in every water utility in Pa.), but that does not mean that the foreman will be the person actually assigned to complete those tasks. (Tr. at 107) Witness Everette has no knowledge how Columbia assigns tasks to employees and how they operate their facility. As Mr. Lewis explained, the fact remains that the foreman spends nearly all of his time completing Columbia Division tasks. (Tr. at 107) He further explained that Columbia's allocation of 4.22% for the foreman as explained in its response to OCA-I-25 is based on the time spent in the 4^{th} quarter of 2012 and the way Columbia assigns employees to do work tasks. (Tr. at 107-108)

The OCA's negative adjustment of $6,035 of the foreman's salary to the Marietta Division should be rejected.

b. Salary of the Service Person

OCA witness Everette allocates 15% of the service person's salary to the Marietta Division resulting in a negative adjustment of $4,935. (OCA Exhibit AEE-1S, Schedule 2S, line 10) Mr. Lewis testified that, just like the foreman, a person's job description is not used as the basis for assigning tasks. He further testified that the Company's original allocation of 2.31% was based upon time spent in the fourth quarter (of 2012) and it is based upon the way Columbia assigns employees to do work tasks. (Tr. at 109)

OCA's negative adjustment of $4,935 of the service person's salary to the Marietta Division should be rejected.

c. Salary of Customer Service Personnel

The OCA has accepted Columbia's allocation of 4.3% to the Marietta Division resulting in a net increase to the Company's revenue requirement of $1,443. (OCA Statement 1S at 16:12-17:2; OCA Exhibit AEE-1S, Schedule 2S, line 8, 19)

d. Salary of Meter Reader

The OCA accepted Columbia's allocation of 4.3% to the Marietta Division but also applies this allocation to the 2nd meter reader's time resulting in a total adjustment decrease of $1,341. (OCA Statement 1S at 17:4-13; OCA Exhibit AEE-1S, Schedule 2S, lines 5, 12) The Company accepts this adjustment.

e. Salary of the Fire Hydrant Painter

The OCA has accepted the Company's position that the fire hydrant painter spends no time on Marietta Division tasks (OCA Statement 1S at 17:15-17); however, OCA has not updated OCA Exhibit AEE-1S, Schedule 2S, line 14. This Schedule should be updated to reflect a $0 adjustment to the Company's revenue requirement.

f. Salary of the Operator

The OCA has indicated that it unintentionally allocated a portion of the Operator's salary to the Marietta Division and has removed the adjustment of $2,700. (OCA Statement 1S at 17:19-18:3; OCA Exhibit AEE-1S, Schedule 2S, line 20)

3. Payroll Taxes

The OCA has recommended a positive adjustment in the amount of $72. (OCA Statement No. 1S at 18:11-16; OCA Exhibit AEE-1S, Schedule 1S at 22). However, this allocation is based on OCA's flawed and speculative allocations of the Company's employee salaries and wages to the Marietta Division. As Mr. Lewis explained, the Company had already allocated an average of 8% of its employees' time to the Marietta Division; however, the specific percentage varies by employee and the specific amount of time devoted to Marietta Division tasks. (CWC Statement 1R at 2:14-3:8)

The OCA's positive adjustment of $72 should be rejected, and the Company's original claim for payroll tax expense, in the amount of $75,060 should be accepted.

4. Pension and Benefits

a. Health Insurance

OCA witness Everette recommends a negative adjustment of $8,681 to the Company's Pension and Benefits expense for employee health insurance that she allocates to the Marietta Division. (OCA Statement 1S at 20:9-10; OCA Exhibit AEE-1S, Schedule 6S, line 2) OCA witness Everette bases this allocation on her allegation that the Company did not provide in discovery the particular benefits for each employee, (the Company was not asked to provide this information (Tr. at 113)) so she uses her flawed speculation of what she believes is the time spent by each employee on Marietta Gravity tasks. (OCA Statement 1S at 20:12-21:5) This speculative time allocation is incorrect, and Ms. Everette agreed upon cross that adjustments should not be based upon speculation. (Tr. at 187)

As Mr. Lewis explained, health insurance costs vary widely from employee to employee. Some employees opt out of coverage. Some employees enroll just themselves while others enroll their entire families. (Tr. at 113-114) He further explained that the allocations that the Company provided take into account these discrete, employee-specific, varying health insurance costs. (Tr. at 114) He testified that the Company's allocations of employee health insurance benefits were based upon the percentage of the person's time allocated to the Marietta Division and the actual costs of the person's benefits. (CWC Statement 1R at 10:5-8)

The OCA's recommended negative adjustment of $8,681 to the Company's health insurance expense based on a flawed, speculative allocation should be rejected.

b. Pension Expense

OCA witness Everette recommends a negative adjustment of $4,846 to the Company's Pension and Benefits expense for pension expense that she allocates to the Marietta Division using the same faulty, speculative allocation logic she used for health insurance. (OCA Statement 1S at 21:18-22:2; OCA Exhibit AEE-1S, Schedule 6S, line 3) As Columbia's general manager Mr. Lewis explained, the Company's allocation of pension expense to the Marietta Division were based upon the percentage of the person's time allocated to the Marietta Division and the actual costs of the person's benefits. (CWC Statement 1R at 10:19-11:4)

The OCA's recommended negative adjustment of $4,846 to the Company's pension expense based on a flawed, speculative allocation should be rejected.

c. Disability and Life Insurance

OCA witness Everette recommends a negative adjustment of $765 to the Company's Pension and Benefits expense for disability and life insurance expense she allocates to the Marietta Division using the same faulty, speculative allocation logic she used for health insurance and pension expense. (OCA Statement 1S at 22:4-12; OCA Exhibit AEE-1S, Schedule 6S, line 4) As Columbia's general manager Mr. Lewis explained, the Company's allocations of disability and life insurance benefits were based upon the percentage of the person's time allocated to the Marietta Division and the actual costs of the person's benefits. (CWC Statement 1R at 11:9-13)

The OCA's recommended negative adjustment of $765 to the Company's disability and life insurance is based on a flawed, speculative allocation and should be rejected.

d. Employee Recognition

OCA witness Everette recommends elimination of $6,051 to the Company's Pension and Benefits expense for employee recognition. (OCA Statement 1S at 22:14-23; OCA Exhibit AEE-1S, Schedule 6S, line 5) I&E recommends the same. (I&E Statement No. 2-SR at 7:4-9) OCA witness Everette describes part of this benefit as, "An outing to an amusement park is simply not employee compensation." (OCA Statement 1S at 22:20) This is simply an incorrect, if not unfair, characterization.

As Mr. Lewis explained, this is not a trip to Hershey Park. Neither is it an event nor a picnic. The Company provides Hershey Park tickets to its employees as an economic benefit as part of their overall compensation package. The employees use their ticket when they want during the year. The employee must use it on their own time, perhaps on a weekend, or they take a vacation day to use it. (Tr. at 112) Mr. Lewis further explained that the Hershey Park tickets and the year-end banquet are economic benefits the Company has been providing for years which are calculated to retain and compensate employees. (CWC Statement No. 1R at 12:30) He testified that Columbia is a tiny Company and must use benefits like this to keep highly skilled workers and to compete with other private water utilities, as well as municipal water and wastewater authorities. (Tr. at 112-113)

OCA's Ms. Everette, in a sweeping conclusion in her surrebuttal, testified that "the benefits of regular pay increases and no employee contribution to health insurance ... are certainly a tool for retaining qualified employees." (OCA Statement No. 1S at 22:16-20) Company general manager Lewis disagreed with her pronouncement, noting "[i]t is a thoughtful compensation tool that communicates to the worker that they are important to us and it means more than if we just give them the equivalent amount of money or a pay raise in that amount." (Tr. at 113)

The banquet is an equally important tool to foster, retain, and provide reinforcement and feedback for workers who perform very well. Such claims have been accepted by the Commission. For instance, in *Pa. PUC v. York Water Co.*, 62 Pa. P.U.C. 459 at 487 (1986) the Commission allowed expenses related to an end of year service award banquet. The Commission determined that an award dinner or banquet gave the utility the opportunity to recognize employees for service to the utility and its customers. The Commission reasoned that this recognition would, in turn, foster improved employer-employee relations and result in a more satisfied and effective work force. *Id.* The same result should apply here.

The OCA and I&E's recommended elimination of $6,051 to the Company's employee recognition claim should be rejected.

5. Vehicle Insurance

OCA witness Everette recommends a negative $589 adjustment to the Company's vehicle insurance expense claim for the portion that she allocates to the Marietta Division using the same faulty, speculative allocation logic it used for Pension and Benefits. (OCA Statement 1S at 24:21-25; OCA Exhibit AEE-1S, Schedule 1S, line 24) OCA also alleges that there is a contradiction in Mr. Lewis' testimony concerning the allocation of vehicle cost to the Marietta Division. (OCA Statement 1S at 24:11-19) This is simply not true.

Mr. Lewis testified that the Marietta Division has its own vehicle, and, thus, most of the vehicle costs are associated with that vehicle. (Tr. at 114) He explained that many of the employees that do Marietta Division work do not use vehicles; for example, customer service personnel, the office manager, and the production superintendent. Even meter readers mainly walk and only use the vehicle to get to the service area. (Tr. at 114) He further explained that the vehicle use associated with the Marietta Division is minimal even when you include the hours of those employees that do Marietta Division tasks and use vehicles and, if anything, it is less than 4 percent, which is the amount of time the Company allocated for the foreman and the meter readers and other employees who do Marietta tasks. (Tr. at 114-115) The Company's vehicle costs will go up if they are used substantially for the Marietta Division, and those additional costs will be allocated to the Marietta Division. (Tr. at 115)

In addition, Mr. Lewis testified that the Company, based upon a notice from its insurance carrier received during this rate case that its vehicle insurance rates will be increasing, has adjusted its expense claim upward by $837 due to the increase in the vehicle insurance premium. (CWC Statement No. 1R at 13:7-8; DTL Rebuttal Exhibit No. 1) The OCA recommends complete rejection of the increase because the policy falls partly outside the FTY, or in the alternative, to allocate 8.54% to the Marietta Division. (OCA Statement 1S at 25:4-11) First of all, the allocation to the Marietta Division should be rejected based on the allocation argument above. Second, the cost is known and measurable, and the Company doubts OCA would ask the Commission to ignore the notice if it was a decrease in insurance rates. OCA's position to ignore it, if accepted, will guarantee a lack of expense coverage at the approximate time the rates will become effective. That should not be the goal of ratemaking.

The OCA's recommended negative adjustment of $589 to the Company's vehicle insurance claim and elimination of the update should be rejected, and the Company's updated total claim of $7,737 (GDS Rebuttal Exhibit No.3 (Revised) at 2), which includes the updated insurance rate information, should be adopted.

6. Worker's Compensation Insurance

The OCA recommends a negative adjustment of $2,938 to the Company's worker's compensation insurance claim for the portion it allocates to the Marietta Division using the same faulty, speculative allocation logic it used for Pension and Benefits. (OCA Statement 1S at 25:14-26:2; OCA Exhibit AEE-1S, Schedule 1S, line 25) As the Company's general manager Mr. Lewis testified, workers compensation insurance premiums are based upon wages and the classification of the employee, and it is unreasonable to use a blanket amount to allocate and should be based on the actual amount of time allocated to the Marietta Division. He also explained that the 3.8% allocation in the original filing is based upon the actual hours worked on Marietta Division tasks. (CWC Statement 1R at 13:14-19)

In addition, Mr. Lewis testified that the Company has increased its expense claim by $2,752 based upon information received from the carrier during this case due to an increase in the worker's compensation premium. (CWC Statement No. 1R at 13:21-22; DTL Rebuttal Exhibit No. 1) The OCA recommends complete rejection of the increase because the policy falls partly outside the FTY, or in the alternative, to allocate 11.99% to the Marietta Division. (OCA Statement 1S at 26:6-13) First of all, the allocation to the Marietta Division should be rejected based on the allocation argument above. Second, the cost is known and measurable. It is notice that the insurance premium <u>has</u> increased and if it is rejected, it will guarantee a lack of expense coverage at the approximate time the rates will become effective. Again, that should not be the goal of ratemaking.

The OCA's recommended negative adjustment of $2,938 to the Company's worker's compensation insurance claim and the update should be rejected, and the Company's updated total claim of $27,252, which includes the updated worker's compensation insurance rate information, should be adopted.

7. Accounting and Auditing

OCA witness Everette recommends a negative adjustment of $2,364 to the Company's accounting and auditing claim for the portion that she allocates to the Marietta Division using an allocation percentage of 12% for the relative number of Marietta Division customers. (OCA Statement 1S at 28:17-29:2; OCA Exhibit AEE-1S, Schedule 1S, line 26) She alludes to a contradiction in Mr. Lewis' testimony regarding the auditing of separate books. (OCA Statement No. 1S at 27:5-6) This is incorrect however, as the Company's general manager Mr. Lewis testified that the Marietta Division has different rates, and the Company needs to use separate accounting tools to properly track and account for the costs associated with the Marietta Division. (Tr. at 115) He explained that the auditors will use the separate books of the two divisions to prepare one consolidated tax return. (Tr. at 116) He further explained that with the separate divisions, Columbia will be preparing separate budgets, keeping separate books, and preparing separate depreciation calculations and accruals. Moreover, he continued, the Columbia Division's accounting costs will not go down or somehow get shared with the Marietta Division, but instead will increase as discussed above and the additional costs will get allocated to the Marietta Division. (CWC Statement 1R at 14:6-11) For example, as Mr. Lewis testified "our accountants have estimated that our accounting cost will increase by approximately 15% due to increased effort and time that will be associated with the separate Marietta Division books." (CWC Statement No. 2R at 14:11-13; DTL Rebuttal Exhibit No. 2)

The OCA's recommended negative adjustment of $2,364 to the Company's accounting and auditing expenses claim should be rejected and the Company's claim of $28,300 should be accepted.

E. Officers' Salaries

1. Adjustment to Officers' Salaries

The Company originally made an expense claim for Officers' salaries of $68,000. (GDS Exhibit No. 1 at 1-15) The claim was subsequently adjusted to $66,144 to reflect a 4.3% allocation of the Officers' salaries to the Marietta Division. (Tr. at 128; GDS Rebuttal Exhibit No. 3 (Revised) at 2) OCA witness Everette recommends a negative adjustment in the amount of $12,456 to the Officers' salaries. (OCA Statement No. 1 at 56:23) (OCA did not break the adjustment to Officers' salaries out in a separate line item in OCA Exhibit AEE-1S, Schedule 1S) She accomplishes this by converting the Officers' salaries (they are salaried employees) to an hourly rate and then apparently using her subjective notions of value or worth to the Company. (OCA Statement No. 1 at 55:4-57:16) This novel evaluation of the reasonableness of the claim for Officers' salaries should be rejected for numerous reasons.

First, the Company's claim for Officers' salaries is substantially less than the $80,800 that was approved by the Commission in Columbia's last rate case in 2008. *Pa. Pub. Util. Commn. v. Columbia Water Company,* Docket No. R-2008-2045157 (Final Order Entered June 10, 2009) ($80,800 in Officers' salaries was approved by the Final Order). The OCA has provided no evidence that since that Order, the performance of the Company's Officers' has lessened in any way. In fact, as Mr. Lewis testified to, and is set forth in detail in the performance factor section of this brief, Section (VI)(B)(1), the Company has provided exemplary performance over the past several years. Its quality of service has been outstanding and it has found numerous ways to streamline its business and reach out to the community, all the while maintaining its staffing levels, thus saving its customers money. (CWC Statement No. 1 at 5:8-8:17; Tr. at 120-121) Furthermore, Ms. Everette admitted that she did not even review the Commission's management audits of the Company, and was not aware of any Commission audit that said that the Company's Board[7] or its Officers were not actively contributing to the Company's well-being. (Tr. at 203) A review of these audits at Docket Nos. D-2011-2218445 and D-08MEI002 reveals that the Commission found no problems with the compensation of the Officers or Directors. Moreover, Mr. Lewis testified that neither the Company's Officers nor Directors have had any raise in salaries or fees since 2009. (CWC Statement No. 1 at 17:17-18) The Company is not requesting a raise in salaries or fees in this filing. Certainly, the salaries that were accepted as being reasonable in 2009 (and are less in 2013) are reasonable today, particularly given the continued outstanding performance of the Company.

Second, even though Ms. Everette states that she realizes the Officers and Directors are not hourly employees and decries that she is not setting hourly rates (OCA Statement 1S at 30:8-10), she goes right ahead and converts their salaries into hourly wages and uses those hourly wages as a way to attack the reasonableness of the Officers' salaries. (OCA Statement 1S at 30:8-10) Ms. Everette states in her testimony that it is her job to "recommend adjustments pursuant to generally accepted accounting and ratemaking principles," (OCA Statement 1 at 3:15-16; Tr. at 186) and goes on to agree that generally accepted principles provide for adjustments based on fact rather than speculation. (Tr. at 187) However, after making those statements she admits making the hourly conversion of the Directors' fees and Officers' salaries, as a way to determine

[7] Although the OCA has not separated out the expense claim for Directors' fees from the claim for Officers' salaries, Columbia is addressing these two items in separate sections because they are separate expense line items. However, Columbia includes reference to both Officers and Directors in this argument section when addressing the attack on the reasonableness of their salaries and fees because the fallacy in OCA's reasoning and arguments can be applied to both and the claims have been addressed together throughout the testimony.

reasonableness, without any Commission or "generally accepted rate making principles" precedent. Specifically, she admitted that her proposed method has never been accepted by this Commission. (Tr. at 204-205) An hourly computation is a bad fit from the start for a non-hourly job, and it is rife with Ms. Everette's subjective judgment. She conceded she has never been an officer or director of a single company, has never been on a Board of Directors and has never met with Columbia Directors or visited Columbia Water. (Tr. at 190) She fails to comprehend the true responsibilities, liabilities, or obligations of the Company's Officers and Directors.

The performance of the Company, its ability to consistently meet and exceed regulatory requirements and the consistent quality of water service are what really matter. As much as the OCA tries to make the claim, the fact remains that the Officers and Directors are not paid hourly. As Company general manager Lewis, who works intimately with the Officers and Directors explained, "a timesheet will never capture the true amount of time spent by each, the legal responsibilities that they each have and the personal exposure that each assumes with the position." (CWC Statement No. 1R at 17:7-9)

Specifically, the Officers and Directors have a tremendous amount of job responsibilities. Mr. Lewis, in his testimony, described the job responsibilities of each Officer and Director of the Company as follows:

> Q: Please identify the Officers of Columbia Water.
>
> A: Donald Nikolaus is the President. Phillip Glatfelter is the Senior Vice President, I am the Vice President, John Hinkle is the Secretary/Treasurer and Jay Lutz is the Secretary of the Executive Committee.
>
> Q: Please describe their duties as Officers.
>
> A: In general, corporate officers institute company guidelines and policies and make certain that department managers are getting their staff to produce. They are responsible for ensuring that the company performs its obligations to customers and shareholders, oversee the management of the

corporation, and follow the management structure of the corporation on a day to day basis.

As president, Mr. Nikolaus is the Chief Executive Officer of the Corporation with general supervision over and direction of the affairs of the Corporation. In this capacity he presides at all meetings of the Board of Directors, represents the Company in the public sector, and to all regulatory entities and municipal governments.

Q: Is Mr. Nikolaus involved in the day-to-day operation of the Company?

A: Yes, he is extremely hands-on and is engaged in every aspect of the Company. He is in Columbia's offices almost on a daily basis. When he is not in the office he is always available by phone and I usually have at least one Columbia business conversation with him daily. There is not a day that goes by that he is not fully aware and engaged with the Company's business.
It would be impossible to document everything that he does on a daily, monthly or annual basis; however, the following list provides a general summary of his involvement:

- Visits construction sites to review progress and workmanship;
- Reviews all reports and studies;
- Reviews and approves project plans;
- Reviews and approves permit applications;
- Reviews and approves major equipment selections;
- Reviews and approves PENNVEST payment requests;
- Reviews and approves vouchers;
- Signs checks;
- Reviews and executes agreements;
- Reviews treatment plant performance and water quality test results;
- Reviews and approves annual reports to regulatory agencies;
- Reviews and approves communications with the customers (i.e. Consumer Confidence Reports, program announcements, water conservation brochures, etc.).

- Meets with outside contractors to review progress and workmanship;
- Participates in employee interviews and hiring;
- Participates in employee performance evaluations;
- Provides input to General Manager relating to contract renewals;
- Attends public meetings when required when Company business will be discussed;
- Meets with the Company's banker periodically; and
- Visits Company facilities to review operations and maintenance.

Q: Please continue with your description of the Officer's duties.

A: Mr. Hinkle, as Secretary, records all minutes of the meetings of the Board of Directors, attests to all official documents signed by the Corporation, and performs the usual and customary duties of the Secretary. As Treasurer, he signs the checks issued by the Corporation, as well as approving the vouchers for the payment of bills, oversees the funds of the Corporation as provided by the By Laws, provides Treasurer's reports monthly to the Board of Directors, and performs such other usual and customary duties of a Treasurer for a Corporation.

Mr. Glatfelter as Senior Vice President has and must exercise the rights, powers and duties of the President in the President's absence and performs such other duties as assigned by the Board of Directors. The Senior Vice President also serves as Chairman of the Executive and Pension Committees of the Corporation. He also serves as a second signature and approval for the payment of bills by the Corporation.

Mr. Lutz, as the Secretary of the Executive Committee communicates information for various special meetings of the Executive Committee and records all minutes of the Executive Committee meetings. He also serves as a signatory for the Corporate Checking Accounts.

* * *

Q. Please identify the Board of Directors of Columbia.

A. The Chairman of the Board is Donald Nikolaus. The other Board members include Phillip Glatffelter, John Hinkle, Jay Lutz and Kevin Kraft.

Q: Please describe their duties.

A: The board is elected by the stockholders, and is the highest authority in the management of the corporation. Directors are obligated to discharge their duties in good faith and in the corporation's best interest. Directors have a fiduciary duty to shareholders, and are expected to act with a degree of care that a prudent person would use with regard to his or her own business. Typical duties of the board of directors include:

- representing the interests of shareholders;
- setting the Company's vision and mission;
- determining the Company's values to be promoted throughout the corporation;
- providing long-term strategies for sustained profitability and growth;
- governing the organization by establishing broad policies and objectives;
- reviewing and ensuring internal controls are effective;
- ensuring that proper books of accounts are kept;
- oversight and monitoring of the Company's compliance with PUC, DEP and EPA regulations;
- review and approve the Company's financial statements;
- hiring officers;
- establishing and approving employee compensation levels;
- review and approval of major projects and programs;
- selecting, appointing, supporting and reviewing the performance of the chief executive;
- delegating any of its responsibilities to one or more Committees;
- serving on one or more of said Committees;
- ensuring the availability of adequate financial resources;

- approving annual budgets;
- being accountable to the stakeholders for the organization's performance.

(CWC Statement No. 1 at 12:10-16:25)

As Mr. Lewis testified:

> It is well-established business practice across our nation that directors and officers are to be compensated for the corporate responsibilities and legal exposure that they assume. A timesheet never fully captures the phone calls at home from employees, customers or local officials. It never captures time spent with customers who stop them on the sidewalk, in a restaurant or at church to discuss Company business. A timesheet never captures time spent fretting over cash flow, capital needs or staffing issues. A timesheet never captures time spent worrying about how to initiate or complete necessary capital projects. And of course, the timesheet will not limit their responsibility and liability should a legal or regulatory issue arise.

(CWC Statement 1R at 17:6-18)

As Mr. Lewis observed "the OCA ignores quality in exchange for quantity." He explained that "[c]learly the Officers and Directors must be providing the correct amount of time and attention to the Company as evidenced by [its] stellar regulatory and fiduciary record." (CWC Statement No. 1R at 18:1-5) He concluded that "The Company's consistently outstanding regulatory performance and utility service is indication that the compensation is proper and necessary." (Tr. at 117)

The OCA's recommended negative adjustment to the Officers' salaries in the amount of $12,456 should be rejected and the Company's full claim in the amount of $66,144 should be accepted. (GDS Rebuttal Exhibit No. 3 (Revised) at 2)

2. Allocation of Officers' Salaries to Marietta Division

Both OCA and I&E recommend adjustments to the Officers' salaries based on different allocations to the Marietta Division. The OCA recommends an adjustment in the amount of

$14,608 (OCA witness Everette combines the adjustment for Officers' salaries and Directors' fees into one line item adjustment so Columbia will address both in this section). (OCA Statement 1R at 37:13-14; OCA Exhibit AEE-1S, Schedule 1S, line 32) I&E witness Wilson recommends, based upon respective customer counts for the two divisions, an adjustment to Officers' salaries of $8,268. (I&E Statement No. 2-SR at 4;12-14) Both OCA and I&E recommend these adjustments based on their allocation factors of 15% and 12% respectively. The Company, in response to OCA and I&E's direct testimony, has agreed to allocate 4.3% of its Officers' salaries and Directors' fees to the Marietta Division, thus reducing its claim for Officers' salaries to $66,144 and Directors' fees to $60,036. (CWC Statement No. 1R at 21:4-5; GDS Rebuttal Exhibit No. 3 (Revised), page 2) The reasons why the Company's allocation is correct and OCA and I&E's are wrong follow.

The inherent problems with using blanket allocations by OCA and I&E have been previously discussed in Section (V)(D)(1). Moreover, as Mr. Lewis explained, equating Officer and Directors' time spent on Marietta Division business with the amount of time that Company field supervisors spend on Marietta Division tasks is too simplistic and simply wrong. (CWC Statement No. 1R at 20:10-12) As Mr. Lewis testified, the supervisors for Columbia are overseeing personnel, interacting with regulatory agencies, establishing schedules and work tasks, inspecting work products, evaluating equipment performance and reviewing water quality goals and results. (Columbia Statement No. 1R at 20:5-10) He further testified that equating the time spent by Officers and Directors to that of the supervisors is not reasonable on this basis alone and incorrectly compares full time supervisors to part-time Officers and Directors. (Columbia Statement No. 1R at 20:5-10)

Moreover, as Mr. Lewis testified, Ms. Everette also tries to justify the 15% by stating that it is similar to the compensation received by the Marietta Gravity Water Company directors and officers, but the Company believes that is flawed because it fails to recognize that that additional compensation was for additional or incremental work and responsibilities that those at Marietta Gravity had to do. (Columbia Statement No. 1R at 20:15-19) Mr. Lewis explained, that it is entirely reasonable to assume that compensation for these additional work and responsibilities will on a forward basis require an upward adjustment to officer and director compensation. (Columbia Statement No. 1R at 20:19-21) But putting that aside for now, OCA still fails to recognize that the Company's Directors and Officers still will have to provide the same level of effort and work – and potentially more if the need arises – for the Columbia Division. (Columbia Statement No. 1R at 20:21-24) The Company believes that the 4.3% that it agreed to allocate is a more realistic allocation of the Officers' salaries and Directors' fees to the Marietta Division. (CWC Statement No. 1R at 21:1-5)

Moreover, the 4.3% that the Company recommends is based upon the same reasons used for office staff and customer service personnel that were accepted by OCA witness Everette and I&E witness Wilson. (Tr. at 117) Mr. Lewis testified that revenue for the Marietta Division comes into the company on a quarterly basis since these customers are billed quarterly. As a result, most of the financial data related to the Marietta Division also cycles on a quarterly basis. (Tr. at 117) He further testified that most customer-related activity tends to revolve around billing cycles, and that activity is what makes up a lot of the time that officers and directors spend. The Marietta Division brings additional work and tasks to the officers and directors. So it is on top of what they are doing with the Columbia Division. The Marietta Division work is additional work and in no way becomes shared work with the Columbia Division. The

Company's 4.3% allocation represents a representative allocation for the Marietta Division's portion of the work done by the officers and directors. (Tr. at 117-118)

The OCA and I&E's recommended negative adjustments to Officers' salaries based on allocation to the Marietta Division should be rejected, and the Company's 4.3% negative adjustment, resulting in an allocation of $2,756 to the Marietta Division, should be accepted.

F. Directors' Fees

1. Adjustment to Directors' Fees

The Company originally made an expense claim for Directors' fees of $62,165. (GDS Exhibit No. 1 at 1-15) The claim was subsequently adjusted to $60,036 to reflect a 4.3% allocation of the Directors' fees to the Marietta Division. (Tr. at 128; GDS Rebuttal Exhibit No. 3 (Revised) at 2) OCA witness Everette recommends a negative adjustment in the amount of $20,995 resulting in an allocation for Directors' fees of $40,940. (OCA Statement No. 1 at 57:12) (OCA did not break the adjustment to Directors' fees out in separate line item in OCA Exhibit AEE-1S, Schedule 1S.)

As with Officers' salaries, Everette accomplishes this by converting the Directors' fees to an hourly rate (they are not hourly employees), and then apparently using her subjective notions of value or worth to the Company. (OCA Statement No. 1 at 55:4-57:16) She does this, despite her admitted lack of experience or background, as identified in the discussion on Officers' salaries above. As with the Officers' salaries, this novel evaluation of the reasonableness of the claim for Directors' fees should be rejected for numerous reasons.

First, the Company's claim for Directors' fees is less than it was in Columbia's last rate case that was approved by the Commission at *Pa. Pub. Util. Commn. v. Columbia Water Company*, Docket No. R-2008-2045157 (Final Order Entered June 10, 2009) ($68,000 in

Directors' fees and expenses approved by the Commission). The Commission held in the 2008 rate case that Columbia did not abuse its managerial discretion or take arbitrary action in the amounts it has chosen to pay in directors' fees. *Id.* at 40. Like Officers' salaries, the OCA has provided no evidence that since that Order, the performance of the Company's Directors has lessened in any way. In fact, as Mr. Lewis testified to, and is set forth in detail in the performance factor section of this brief, Section (VI)(B)(1), the Company has provided exemplary performance over the past several years. Its quality of service has been outstanding and it has found numerous ways to streamline its business and reach out to the community, all the while maintaining its staffing levels, thus saving its customers money. (CWC Statement No. 1 at 5:8-8:17; Tr. at 120-121)

Furthermore, Ms. Everette admitted that she did not even review the Commission's management audits of the Company, and was not aware of any Commission audit that said that the Company's Board or its Officers were not actively contributing to the Company's well-being. (Tr. at 203) A review of these audits at Docket Nos. D-2011-2218445 and D-08MEI002 reveals that the Commission found no problems with the compensation of the Officers or Directors. Moreover, neither the Company's Officers nor Directors have had any raise in salaries or fees since 2009, (CWC Statement No. 1 at 17:17-18) and the Company is not requesting a raise in salaries or fees in this filing. The Directors' fees that were accepted as being reasonable in 2009 (and are less in 2013) are reasonable today, given the continued outstanding performance of the Company.

Second, as Mr. Lewis pointed out in his testimony, the per-meeting cost of the Directors' fees in this filing is $570. (CWC Statement No. 1R at 19:7-8) Mr. Lewis testified further that while the Company continues to believe OCA is engaging in micromanaging and invading the Company's managerial discretion, it believes that even using OCA's position elsewhere on this subject for a Class A water company for comparison, it meets and is well below the OCA's then stated standard in terms of compensation to directors. (CWC Statement No. 1R at 19:10-13)

Specifically, Mr. Lewis testified that his Rebuttal Exhibit, DTL Rebuttal Exhibit No. 3, is OCA's response to Columbia's Set I Discovery Requests, Request 5, and in that response, OCA supplied previous testimony where the OCA employee witness used for Newtown Artesian Water Company the York Water Company's average ***per-meeting*** cost of $1,560 as being reasonable compensation for the directors of Newtown Artesian. Columbia's compensation to its directors is nearly 1/3 of this per-meeting cost that the OCA had deemed reasonable in its 2011 testimony. Clearly the Company's compensation for its Directors in this filing is more than reasonable, and arguably is inadequately low, by OCA's standard. (CWC Statement No. 1R at 19:15-23)

Lastly, with regard to OCA's convenient but unaccepted approach of converting the Directors' fees to an hourly rate, all the arguments that were made in Section (V)(E)(1) above, apply equally here. These will not be repeated but Columbia adopts them here by reference.

The OCA's recommended negative adjustment to Directors' fees in the amount of $20,995 should be rejected and the Company's full claim of $60,036 should be accepted. (GDS Rebuttal Exhibit No. 3 (Revised) at 2)

2. Allocation of Directors' Fees to Marietta Division

The OCA recommends an adjustment to the Directors' fees based on an allocation to the Marietta Division. This allocation covers both Officers' salaries and Directors' fees and as is addressed in Section (V)(E)(2) above, and is adopted here by reference.

As discussed in Section (V)(E)(2) above, the OCA's recommended negative adjustments to Directors' fees based on allocation to the Marietta Division should be rejected and the

Company's 4.3% negative adjustment, resulting in an allocation of $2,464 to the Marietta Division should be accepted.

G. Rate Case Expense

The Company's estimated total rate case expense as submitted into the record at the September 5, 2013 hearing through CWC Rejoinder Exhibit No. 6 is $258,412.05. No party objected to the rate case expense claim. Nor has any party contested the period over which this should be spread. The Company asked that they be amortized, and the OCA and I&E will no doubt favor normalization. (Columbia Statement No. 2 at 10:5-6)

VI. RATE OF RETURN

A. Capital Structure and Rate of Return on Common Equity

Columbia Water is recommending the use of its pro forma capital structure at December 31, 2013 of 35.60% long-term debt and 64.40% common equity with cost rates of 5.00% and 11.35%, respectively. (CWC Statement No. 3 at 2:2-4) Company Witness D'Ascendis shows that the circumstances of the instant matter are not entirely different than CWC's most recent case where this Commission approved the use of their pro forma capital structure at December 31, 2008 of 35.80% long-term debt and 64.20% common equity for ratemaking purposes. (CWC Statement No. 3R at 2:10-3:6)

Columbia Water is recommending a return on equity ("ROE") of 11.35%, based on an assessment of market-based cost of common equity models using a proxy group of water companies. (CWC Statement No. 3 at 2:22-3:11; Schedule DWD-1) I&E is recommending a ROE of 9.15% (I&E Statement No. 1 at 5:4-5) and OCA recommends a ROE of 8.25%. (OCA Statement No. 2 at 3:19-22) Only Company witness D'Ascendis relied on multiple methodologies to estimate the required return on equity, whereas both I&E and OCA witnesses narrowly focused solely on the Discounted Cash Flow ("DCF") methodology. Company Witness D'Ascendis demonstrated that the DCF model understates investors' required return when book value is significantly lower than market value, as currently is the case. (CWC Statement No. 3R at 6:7-11:25)

The relevant legal standard applicable to the authorized rate of return has been stated succinctly by the Commission, citing *Bluefield Water Works & Improvement Co. v. West Virginia Public Service Commission*[8] and *Federal Power Commission v. Hope Natural Water Co.*[9] as follows:

> The authorized return must be commensurate with that which can be earned in an enterprise with comparable risk. Furthermore, the return must be reasonably sufficient to assure confidence in the financial integrity of the company. Finally, the return should permit the company to maintain its credit and attract capital [citations omitted].

Company Witness D'Ascendis recommends that Columbia Water be authorized to earn a return on common equity of 11.35%. Mr. D'Ascendis's recommendation is based on the results of an analysis of a group of nine water companies comparable (but not identical) in risk to Columbia Water, using three market-based cost of equity models, i.e., the DCF, the Risk Premium Model ("RPM") and the Capital Asset Pricing Model ("CAPM"), including the empirical CAPM ("ECAPM"). Because the Company must compete with non-price regulated firms for capital, Mr. D'Ascendis also selected a group of twenty-nine domestic, non-price regulated companies comparable in total risk to his proxy group of nine water companies and applied the same three market-based costs of equity models to determine an appropriate cost of equity for Columbia Water in this case. (CWC Statement No. 3 at 29:17-32:18) The use of

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[8] 262 U.S. 679 (1923).
[9] 320 U.S. 591 (1944).

multiple models adds reliability when arriving at a recommended common equity cost rate and is supported by the financial literature. (CWC Statement No. 3R at 5:5-6:21)

Company Witness D'Ascendis performed a DCF analysis on a proxy group of nine water companies comparable in risk to Columbia Water. The proxy group of water companies was selected from companies included in the AUS Utility Reports Water Utility Group. (CWC Statement No. 3 at 12:12-13:11) Mr. D'Ascendis's DCF study for the proxy group produced an equity cost rate of 8.48%. (CWC Statement No. 3 at 4:7; Appendix B at Schedules DWD-1 and DWD-4)

Mr. D'Ascendis also performed an analysis of the cost of equity using the RPM, which is based on the theory that the cost of common equity capital is greater than the prospective company-specific cost rate for long-term debt capital. Stated more simply, it is the expected cost of long-term debt plus a premium to compensate shareholders for the added risk of being last-in-line in claim on the corporation's assets and earnings. Mr. D'Ascendis's RPM analysis produced an equity cost rate of 12.08% for the proxy group. (CWC Statement No. 3 at 4:8; Appendix B at Schedule DWD-6)

Mr. D'Ascendis also performed a study using the CAPM and ECAPM on his proxy group of nine water companies. The CAPM analysis is similar to the RPM in that both add a "risk premium" to an interest rate, but while the RPM uses the interest rate on corporate bonds, the CAPM analysis uses the risk-free interest rate. In Mr. D'Ascendis's studies, the average and median CAPM/ECAPM cost rates were 10.44% and 10.53%, respectively, while the average of those CAPM/ECAPM cost rates for the proxy group was 10.49%. (CWC Statement No. 3 at 4:9, Appendix B, at Schedule DWD-7)

Finally, Mr. D'Ascendis selected a group of twenty-nine domestic, non-price regulated companies similar in total risk to the proxy group of water companies and applied the three market-based cost of equity models to determine a cost of equity for this alternative proxy group. This is an appropriate check on the cost of equity, because the legal standard applicable to the rate of return requires that the authorized rate of return be commensurate with the return that can be earned in an enterprise with "comparable risk" – but it does not limit comparability only to regulated utilities.[10] Application of the three costs of equity models to the non-price regulated proxy group resulted in a cost of equity of 11.38% using the DCF model, 10.69% using the RPM and 10.50% using the CAPM/ECAPM. The indicated common equity cost rate resulting from the application of all three of the cost of equity models to this proxy group is 10.87%. (CWC Statement No. 3 at 4:13; Appendix B, Schedule DWD-9)

Mr. D'Ascendis concluded that the indicated common equity cost rate for Columbia Water before adjustments to reflect certain differences in risk between Columbia Water and the proxy group of water companies, including performance factor and acquisition premiums proffered by Company Witness David Lewis, is 10.60%. (CWC Statement No. 3 at 4:15-16); Appendix B at Schedule DWD-1) Mr. D'Ascendis made four adjustments to the common equity cost rate to account for (1) the difference in financial risk related to the Company's higher equity ratio, as reflected in Standard and Poor's bond ratings, (2) the difference in business risk attributable to the smaller size of Columbia Water's jurisdictional rate base compared to the proxy group of water companies, (3) the rate of return premium that the Pennsylvania Public Utility Commission ("PA PUC") grants for performance factor (management efficiency), and (4) the rate of return premium granted by the PA PUC regarding the demonstrated track record of a

[10] Mr. D'Ascendis used selection criteria, including "betas," which are a measure of non-diversifiable market risk and residual standard deviations, which are a measure of diversifiable risk, in order to assure that the total risk of the non-price regulated companies was comparable to the total risk of his proxy group of water distribution companies.

utility acquiring less viable systems. (CWC Statement No. 3 at 33:13-37:13) After these adjustments, Mr. D'Ascendis's indicated common equity cost rate for Columbia Water is 11.35%. (CWC Statement No. 3 at 37:5)

I&E Witness Maurer is recommending a hypothetical capital structure of 50% long-term debt and 50% common equity with cost rates of 5.00% and 9.15%, respectively. (I&E Statement No. 1 at 5:4-5) Her recommended hypothetical capital structure ignores Commission precedent demonstrated in the most recent rate case Order, as stated previously. Her recommended common equity cost rate was solely based on the results of her DCF model, using her CAPM analysis as a check. (I&E Statement No. 1 at 19:17-18) Her recommended ROE is understated as a result of several errors.

First, Ms. Maurer's exclusion of American Water Works Co., Inc. (American Water) from her proxy group was incorrect due to the fact that American Water did have financial information available from at least one source that Ms. Maurer relied on, even though she excluded them from the group based on that criteria. (CWC Statement No. 3R at 4:7-16)

Second, Ms. Maurer relies solely on the DCF model for her recommendation even though the financial literature, this Commission, and regulatory bodies all over the country have recognized that the DCF has a tendency to mis-specify investors' required return. (CWC Statement No. 3R at 6:22-11:22)

Third, even though Ms. Maurer only uses the CAPM as a check to her DCF results, her application of the CAPM is flawed. In her analysis, she incorrectly uses geometric mean equity risk premiums, 10-year Treasury bonds for her risk-free rate, and refuses to employ the empirical CAPM in spite of her own evidence. (CWC Statement No. 3R at 12:18-17:9)

Finally, Ms. Maurer fails to recognize the unique risks of CWC relative to the proxy group and also rejects the Company's request for performance factor and acquisition premiums. Corrections to Ms. Maurer's DCF and CAPM/ECAPM analyses result in indicated costs of common equity of 10.35% and 10.37%, respectively. (CWC Statement No. 3R at 12:15-16 and 17:8-9)

OCA witness Rothschild is recommending a historical capital structure of 44.15% long-term debt and 55.85% common equity at cost rates of 4.85% and 8.25%, respectively. (OCA Statement 2S; Surrebuttal Schedule ALR 2) Again, Mr. Rothschild, similar to Ms. Maurer, ignores the regulatory precedent of allowing the use of pro forma capital structures for ratemaking purposes in CWC's most recent rate case. Mr. Rothschild also exclusively relies upon the DCF method, but uses a sustainable growth rate as an input in his analysis, as opposed to the use of analysts' forecasts of EPS growth as Company witness D'Ascendis and I&E witness Maurer have in their analyses. Company witness D'Ascendis produces evidence in the financial literature that supports his opinion of long-term analyst forecasts of EPS growth being the most accurate predictor of investor-required returns and that using a sustainable growth rate is an exercise in circularity. (CWC Statement No. 3R at 20:10-23:25)

Mr. Rothschild also does not account for the unique risks of Columbia Water compared to the proxy group and does not reflect the rate of return premiums for performance factor or for CWC's track record of acquiring less viable systems. (OCA Statement 2 at 4:14-18)

The weight of evidence on the appropriate rate of return in this proceeding supports a capital structure of 35.40% long-term debt and 64.60% common equity at cost rates of 5.00% and 11.55%, respectively, as recommended by Company Witness D'Ascendis. This results in an overall rate of return of 9.09%. The failure to grant the Company an adequate overall return will make it more difficult to meet its capital requirements and access capital markets at a reasonable cost and provide reliable and high-quality service for its customers.

B. Performance Factor Premiums

Columbia has claimed in its filing and testimony, rate of return premiums of 0.25% on each of two separate bases: (1) exemplary performance over the last several years in providing water service to the public (66 Pa.C.S. § 523); and (2) an acquisition incentive premium under 52 Pa. Code § 69.721(g) for acquiring the Mountville Municipal System in 1998 and in acquiring the Marietta Gravity Water Company ("MGWC") in 2012. Both the Pennsylvania Public Utility Code and a Commission Policy Statement provide that the Commission may reward utilities through rates, particularly by rate of return premiums, for their performance. In pertinent part, Section 523 of the Code, 66 Pa.C.S. § 523 provides:

> § 523. Performance Factor Consideration.
>
> (a) Considerations. – The Commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the Commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the Commission.
>
> (b) Fixed utilities. – As part of its duties pursuant to subsection (a), the Commission shall set forth criteria by which it will evaluate future fixed utility performance and in assessing the performance of a fixed utility pursuant to subsection (a), the Commission shall consider specifically the following:
>
> > (1) Management effectiveness and operating efficiency as measured by an audit pursuant to Section 516 (relating to audits of certain utilities) to the extent that the audit or portions of the audit have been properly introduced

> by a party into the record of the proceeding in accordance with applicable rules of evidence and procedure.
>
> * * *
>
> (7) Any other relevant and material evidence of efficiency, effectiveness and adequacy of service.

66 Pa.C.S. § 523.

In its Policy Statement regarding acquisitions of viable water and wastewater systems, 52 Pa. Code § 69.721(g), the Commission has provided for incentives to encourage viable utilities to acquire smaller, less viable water and wastewater systems. 52 Pa.C.S. § 69.721(g) reads in pertinent part as follows:

> *(g) Acquisition incentives.* In its efforts to foster the acquisitions of smaller, less viable water and wastewater systems by larger more viable systems, the Commission, under 66 Pa.C.S. § 523 (relating to performance factor consideration), has broad latitude to allow the acquiring utility to request a rate of return premium in a subsequent rate case. The allowance of a rate of return premium, as an acquisition incentive for an acquisition that falls outside of the parameters of 66 Pa.C.S. § 1327 (relating to acquisition of water and sewer facilities), may be requested by those utilities that have demonstrated track record acquiring and improving the service provided to the customers of smaller and less viable water systems. The allowance of additional rate of return basis points may be awarded based on sufficient supporting data submitted by the utility within its rate case filing.

52 Pa.C.S. § 69.721(g).

These two sections form the legal backdrop for Columbia's claims and clearly and unequivocally permit awards of rate of return premiums for exemplary performance by a utility and for water system acquisition.

1. Performance Factor Consideration

66 Pa.C.S. § 523 directs the Commission to consider the efficiency, effectiveness and adequacy of service when setting just and reasonable rates. The record in this case establishes

that the Company has provided outstanding service and commitment to the community over the past several years, and should be awarded with a rate of return premium of 0.25%.

The Company's General Manager, Dave Lewis, has established that the Company meets or exceeds all Federal and State water quality standards and requirements. For example, the Company routinely monitors for over 90 different contaminants and, in 2012, the Company collected approximately 160 water samples to test for compliance with regulatory requirements. Columbia had no violations and all of its testing confirmed that it is operating well within regulatory requirements. In June of 2013, the Company completed its lead and copper testing at 30 locations within the Columbia Division and was found to be in compliance with lead and copper regulations. (CWC Statement No. 1 at 5:8-16)

Furthermore, he testified that from 2010 until present, the Company has had only two operational issues. In September 2011, Columbia issued a boil water notice as a precaution due to flooding that occurred as a result of Tropical Storm Lee; however, no water quality issues were detected and the notice was issued as a precaution only. In March 2013, Columbia issued a "Do Not Consume" Notice in response to someone who broke into a locked finished water storage tank. The Pennsylvania Department of Environmental Protection ("Pa. DEP") found that the water was safe to consume and the notice was lifted. Pa. DEP complimented Columbia on how the situation was handled. (CWC Statement No. 1 at 5:18-6:3; Appendix 2 to CWC Statement No. 1) The Company's water pressure throughout its system meets all standards. (CWC Statement No. 1 at 6:11)

Moreover, Mr. Lewis testified that since 2010, the Company has had no informal complaints and only one formal complaint filed against it with the Commission. The formal complaint alleged that Columbia caused a leak in the customer's plumbing when a meter was replaced. The issue was resolved by the Company crediting the customer's account by $75.00. Furthermore, the Company has consistently had UCARE statistics that are equal to or better than all the other Class A utilities. (CWC Statement No. 1 at 6:13-19) Since 2010, the Company has received no complaints regarding the taste or the odor of its water. (Tr. at 120-121)

In addition to providing outstanding water quality, Mr. Lewis testified that Columbia has worked hard to keep staffing and operating expenses at a minimum, all the while maintaining outstanding customer service and operating well within regulatory requirements. The Company is continuously evaluating how it does things to identify ways to improve its processes and to drive greater efficiencies in its operations. (CWC Statement No. 1 at 7:1-4) He went on to explain that, for example, in 2010, Columbia's Production Superintendent, with the assistance of operators, was able to identify better treatment chemical combinations and dosing rates to lower chemical costs while maintaining superb water quality standards. The Distribution Department is fully capable and equipped to construct water main extensions and make water main repairs. This capability allows the Company to install nearly twice the amount of pipe annually for the same cost as it would if it contracted out those services. (CWC Statement No. 1 at 7:4-10) These capabilities, combined with a constant desire for better efficiencies, allows Columbia to minimize expenses, and it was able to accomplish this while maintaining staffing levels. (CWC Statement No. 1 at 7:10-12)

Mr. Lewis further explained that Columbia has also taken steps to assist the communities it serves by extending into areas with immediate needs. For example, Manor Township approached the Company about serving two existing communities that were experiencing failing septic systems and contaminated wells. The Township indicated that other adjacent water suppliers had stated that they were unwilling to extend into this area and that there was a strong need for public water. Columbia agreed to serve the area and, after obtaining approval from the Commission to expand its service territory, it began installing water main, using its own staff and equipment to serve these communities. A portion of those communities now have public water service and additional water main will be installed this year and next year, until the whole area has the ability to connect public water. (CWC Statement No. 1 at 7:13-22)

Likewise, he explained that in West Hempfield Township, the Company was able to meet the special needs of the community, that was experiencing failing septic systems and contaminated wells, by using Columbia's existing staffing levels and equipment, thereby maximizing the amount of water main that was installed for the cost expended. (CWC Statement No. 1 at 8:1-3)

Mr. Lewis testified that the Company has also taken steps to minimize its environmental footprint by minimizing its power consumption, which benefits the ratepayers and the environment we live in. This occurred when the Company chose to use solar powered mixers for its Prospect Tank and its Manor/Mountville Tank to address the need for mixing in those tanks. This has proven to be a long-term solution to the mixing needs of those tanks, while minimizing the Company's power consumption and environmental footprint. (CWC Statement No. 1 at 8:4-9)

Further, Columbia is currently in the process of establishing an e-Billing program to give its customers more options for receiving and paying their water bills. More and more customers are doing business electronically and Columbia is taking steps to meet this growing demand for electronic services. This program will allow the customer to elect to receive and pay bills electronically which, in turn, will allow Columbia to process an expanding customer base without increasing staffing. This program also has the side benefit of minimizing the Company's environmental footprint by reducing the resources needed to process water bills. (CWC Statement No. 1 at 8:10-17)

Despite this outstanding record of providing high quality water and customer service, both OCA and I&E have contested the Company's performance factor premium, although not in a vigorous way. I&E witness Maurer, on page 42 of I&E Statement No. 1, stated that "in the Company's 2011 Management Audit, Docket No. D-2011-2218445, Columbia was found to be in need of minor improvement for all areas assessed except for customer service where they met expected performance levels." However, a review of that audit reveals the Commission recommended only a few minor changes to the Company. While no comparison to the audits of other utilities has been offered, certainly these minor recommendations, while taken seriously by Columbia, should not diminish the outstanding performance of the Company, as detailed in the testimony of Mr. Lewis.

OCA witness Everette, at page 19 of OCA Statement No. 1, opposes the performance premium, basically on the basis that none of the Company's testimony amounts to anything more than adequate and reasonable service expected of any water company. The performance standards cited by Mr. Lewis are hardly the actions of a company merely meeting the requirements of providing adequate, safe and reliable service. The Company does not dispute that utilities are expected to perform up to certain standards and, indeed, Columbia has done so, and has exceeded those standards in many instances. As cited to above, Mr. Lewis has testified that Columbia has met and exceeded all water quality and pressure standards. The Company has responded to the requests of surrounding communities to provide water service where none was available. It is installing and repairing water mains using its own personnel, thus saving its customers money. It has installed solar powered mixers and is providing an e-Billing system to make its operations run more efficiently and with convenience and money savings for its customers.

Section 523 gives the Commission wide latitude to consider efficiency, effectiveness and adequacy of service when setting just and reasonable rates. Columbia believes that Section 523 recognizes that there are graduations of what constitutes adequate, efficient, safe and reasonable service and requires the Commission to take those distinctions into account when ruling upon rate requests. Columbia's performance since its last rate case has clearly exceeded the base requirements. Indeed, it would be most difficult to imagine how a company the size of Columbia could do more. Accordingly, the Commission should exercise its discretion by granting Columbia a rate of return premium on its equity cost rate.

2. Acquisition Incentive

Columbia has made a claim for a rate of return premium of 0.25% based on 52 Pa. Code § 69.721(g) for its purchase of the Mountville Municipal System in 1998 and the Marietta Gravity Water Company in 2012. Section 69.721(g) provides an incentive to foster the acquisitions of smaller, less viable water and wastewater systems by a larger more viable system, and gives the Commission broad latitude to allow the acquiring utility to request a rate of return premium in a subsequent rate case.

As Mr. Lewis provided in his testimony, Columbia, a larger more viable system, has a history of acquiring less viable water systems. For instance, it acquired the Mountville Municipal System in 1998 and, at the end of 2012, acquired the Marietta Gravity Water Company – the Commission finding such acquisition to be in the public interest. The Company has made improvements to service for both systems. (CWC Statement No. 1 at 10:5-10)

For example, he testified that at Mountville, the Company constructed a new 1 million gallon finished water storage tank and booster pumping station to serve the Mountville pressure zone, it made modifications to the Mountville pressure zone to provide more uniform and acceptable pressures, it replaced all of the meters since they had not been tested or replaced previously, and it replaced old-age water mains on numerous streets in the Borough. (CWC Statement No. 1 at 10:11-16)

He further testified that at MGWC, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

(CWC Statement No. 1 at 10:17-11:4)

Both I&E witness Maurer (I&E Statement No. 1-SR at 14:1-7) and OCA witness Everette (OCA Statement 1S at 7:5-21) oppose the acquisition incentive premium for essentially the same reason, that Columbia's two acquisitions do not demonstrate a history of acquisitions that meets the standard of the policy statement. However, on cross-examination, OCA witness Everette admitted that she did not base this on any "magic number" or past precedent or comparisons, just that in this case, she doesn't believe that two acquisitions are enough. (Tr. at 193) Likewise, I&E witness Maurer provides no precedent to support her lack of acquisition.

As Mr. D'Ascendis testified, "although the acquisitions were spaced over time, Columbia has still demonstrated that they have a goal of acquiring and improving less viable systems." (CWC Statement No. 3R at 30:3-6) As Ms. Everette admitted, there is no "magical number" that is required by the policy statement. Section 69.721(g) only requires that the utility has "demonstrated a track record of acquiring and improving the service provided to the customers of smaller and less viable water systems." Columbia believes, that given its size, two acquisitions in the past fifteen (15) years certainly demonstrates the "track record" contemplated by the policy statement. Mr. D'Ascendis explained that if Columbia acquired too many systems in a short period of time, they could have realized extraordinary business risk due to numerous acquisitions in a short time period and could have become unviable themselves. Columbia's acquisition strategy is responsible and prudent and should be rewarded by the Commission at this time. (CWC Statement No. 3R at 30:6-9)

VII. MISCELLANEOUS ISSUES

A. <u>Officers' and Directors' Time Sheets</u>

In Ordering Paragraph 5 of the Commission's Order in Columbia's 2008 rate case, *Pa. Pub. Util. Commn. v. Columbia Water Company,* Docket No. R-2008-2045157 (Final Order Entered June 10, 2009), the Commission, at the request of the OCA, ordered Columbia's officers who are also directors, in future rate cases, to keep an accounting of their hours devoted to Company business, in their roles as officers and directors, in relation to all other business. Although Columbia has complied with this requirement and has provided these hours in its testimony (CWC Statement No. 1 at 15:12-16 and 17:3-5), Columbia is requesting that the Commission rescind this requirement on a going forward basis.

As Mr. Lewis explained, the Company believes the requirement for the officers to keep records of time spent on Company business is unreasonable for many reasons. First of all, both positions are salaried positions and never were and never will be hourly positions. The purpose of the compensation is to attract highly qualified and responsible persons to oversee (what could be argued one of the most important positions in the country) a company that produces and distributes clean potable water to individuals, families, business and industries within our service territory. (CWC Statement No. 1R at 21:10-16)

He further explained that the Company is not making widgets that can be recalled or repaired if flawed, but instead the directors are charged with overseeing, managing and directing a company that makes a product that has to meet the highest of standards 100% of the time and is essential to the health and well-being of every individual and the community as a whole. The public ingests water. (CWC Statement No. 1R at 21:16-20)

Moreover, he testified that the Officers' and Directors' compensation goes way beyond how much time they spend inside the office walls, but instead has everything to do with the level of experience and expertise they bring to the table, their responsibilities to the customers, shareholders and community, the quality of the corporate direction they provide, the quality of the decisions they make, the quality of service that they demand of the employees, and the legal exposure they assume. The time sheet will never shield them from their legal exposure or limit their responsibilities to the customers, shareholders and regulatory agencies and thus the timesheet should not be used to somehow justify compensation for positions that carry considerably more responsibility and exposure than that of an hourly employee. (CWC Statement No. 1R at 21:20-22:5)

Finally he testified that the requirement of the Company's directors and officers to prepare an accounting of their time is discriminatory, an unnecessary burden to each member, creates a distracting environment, opens them up to additional legal exposure, and is a requirement that no other Class A utility in Pennsylvania is required to do. The Company strongly believes that the officer and director salaries are reasonable for the responsibilities and legal exposure they assume and the tallying of time to be an unnecessary and unreasonable requirement. The Company is very concerned that these unnecessary strings imposed on the Board and officers will make it not worth the meager compensation they receive. That will invite Board and officer talent that is not as good as what the Company currently has, or one that has no ties to the community. (CWC Statement No. 1R at 22:7-16)

For these reasons the Company requests that it officers and directors be relieved of the requirement to keep hourly time records.

VIII. RATE STRUCTURE

The proposed increase in revenues was allocated on an "across-the-board" basis to all customers. No party has opposed this structure or proposed rate structure or design changes.

IX. CONCLUSION

The Columbia Water Company has justified an increase in base revenues of $949,426 in this proceeding, consistent with tables 1 and 2 attached to this brief, which should be granted by the Commission.

Respectfully submitted,

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The Columbia Water Company

DATED: September 26, 2013

TABLE I

The Columbia Water Company

TABLE I

INCOME SUMMARY

	Pro Forma Present Rates $	Recommended Adjustments $	Adjusted Present Rates $	Revenue Adjustment $	Total Allowable Revenues $
Operating Revenues	$4,041,664	$763,818	$4,805,482	$185,608	$4,991,090
Deductions:					
O&M Expenses	$2,030,398	$0	$2,030,398	$21,807	$2,052,205
Depreciation	$739,260	$0	$739,260	$0	$739,260
Amortization	$15,039	$0	$15,039	$0	$15,039
Taxes:					
State	$75,186	$76,791	$151,977	$34,253	$186,230
Federal	$171,208	$235,211	$406,419	$160,564	$566,983
Other	$134,931	$0	$134,931	$0	$134,931
Regulatory Assessments	$24,159	$4,633	$28,792	$1,112	$29,904
Total Deductions	$3,190,181	$316,635	$3,506,816	$217,736	$3,724,552
Net Income Available for Return	$851,483 ========	$447,183 ========	$1,298,666 ========	($32,128) =======	$1,266,538 ========
Rate Base	$13,527,774 ========	$268,971	$13,796,745 ========	$0	$13,796,745 ========
Recommended Rate of Return					9.18% ========

TABLE II

The Columbia Water Company

TABLE II

SUMMARY OF ADJUSTMENTS

Recommended Adjustment	Exhibit Reference	Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Effect	Effect Upon Taxes-Other	State Tax Effect	Federal Tax Effect
O&M Expenses:								
Reduce Salaries & Wages: Officers, Directors & Majority Stockholders	GDS Rebuttal Exhibit No. 3			-$2,756				
Increase Employees Pensions & Benefits	GDS Rebuttal Exhibit No. 3			$30,455				
Increase Vehicle Insurance	GDS Rebuttal Exhibit No. 3			$837				
Decrease General Liability Insurance	GDS Rebuttal Exhibit No. 3			-$2,207				
Increase Workman's Compensation	GDS Rebuttal Exhibit No. 3			$1,716				
Decrease Membership Dues	GDS Rebuttal Exhibit No. 3			-$524				
Decrease Registration Fees for Conventions & Meetings	GDS Rebuttal Exhibit No. 3			-$516				
Decrease Office Expenses & Utilities	GDS Rebuttal Exhibit No. 3			-$2,734				
Decrease Directors & Expenses	GDS Rebuttal Exhibit No. 3			-$2,464				
		------------	------------	------------	------------	------------	------------	------------
Total O&M Expenses		$0	$0	$21,807	$0	$0	$0	$0
Taxes & Assessments:								
		------------	------------	------------	------------	------------	------------	------------
Total Taxes - Other		$0	$0	$0	$0	$0	$0	$0
Rate Base:								
Adjust Cash Working Capital	(1)	$2,726						
Adjust Deferred Income Taxes		-$72,793						
Adjust Depreciation Reserve		$339,038						
		------------	------------	------------	------------	------------	------------	------------
Total Rate Base		$268,971	$0	$0	$0	$0	$0	$0

Note:
(1) Calculated by multiplying the O&M Expense Adjustments ($21,807 by 1/8).

APPENDIX A

APPENDIX A

PROPOSED FINDINGS OF FACT

1. Columbia's original claim for rate base in its filing, as of December 31, 2013, was $13, 527,774. (CWC Statement No. 2 at 11:14-15; GDS Exhibit No.1 at 1-17) During the course of the proceeding, the Company increased its rate base claim to $13,796,707. (GDS Rebuttal Exhibit No. 3 (Revised) at 3) The individual adjustments resulting in the revised rate base claim are as follows: (1) Reserve adjustment (4% CIM – PennVest Plant): **Add $339,038** (CWC Statement No. 2R at 20:12-21; GDS Rebuttal Exhibit No. 3 at 3); (2) Cash working capital: **Add $2,688** (GDS Rebuttal Exhibit No. 3 (Revised) at 3)

2. The Company has adjusted its total depreciated plant in service from its original filing of $24,706,812 to $25,045,850. (CWC Statement No. 2R at 20:12-21; GDS Rebuttal Exhibit No. 3 (Revised) at 3)

3. The reason for this adjustment is because Columbia overstated the book depreciation reserve related to the PennVest plant in service. The Company's book depreciation ($1,853,844) for this plant includes annual depreciation accruals based upon the straight-line average remaining life methodology. However, the PennVest rate was based solely on the 4% Compound Interest method during the term of the rate. Therefore, there exists a difference between the book depreciation reserve and the capital recovery through customer rates of approximately $339,038 for this plant. (CWC Statement No. 2R at 20:12-21; Tr. at 142)

4. The Company's claim for Materials and Supplies ("M&S") in Inventory is $62,314. (GDS Exhibit No. 1 at 1-17)

5. OCA witness Everette recommended a negative adjustment of $4,592 based on her use of a 13-month average, from January 2012 to January 2013, instead of the Company's 3-year average. (OCA Statement No. 1 at 7:4-12; OCA Exhibit AEE-1S, Schedule 1S, line 3)

6. To accurately reflect a 13-month average of materials and supplies, the Company would have to close its books on a monthly basis, which it does not. (CWC Statement No. 2R at 14:18-20).

7. The company closes its books annually, which is more economical for smaller companies, and these annual audited numbers, based on actual inventory, better represents M&S than Ms. Everette's use of monthly estimates. (Tr. at 135-136)

8. The 3-year average better represents what smaller companies do and has been approved by the Commission in previous cases, including Columbia's last rate case, *Pa. P.U.C. v. Columbia Water Company*, Dkt No. R-2008-2045157 (Final Order entered June 10, 2009) at 29-32. (Tr. at 165 and 169)

9. If the most recent 13 months are used, it results in an M&S inventory claim of $64,888, which is $2,574 above the Company's 3 year average, and is also above Ms. Everette's stale 13 month period. (Tr. at 136)

10. The Company's original claim for cash working capital was $248,967. (GDS Exhibit No. 1 at 1-17) Based on certain adjustments made during the course of this proceeding the Company's revised claim is $251,655. (GDS Rebuttal Exhibit No. 2 (Revised) at 3)

11. The Company's pro forma claim for Plant in Service is $35,003,303. (GDS Exhibit No. 1 at 2-9) Both OCA and I&E have challenged the inclusion of $4,902,136 in Plant in Service that was funded with a PennVest loan.

12. In 1993 the Company constructed $4,902,136 of fixed capital plant that included, but was not limited to, source of supply, pumping, transmission and distribution mains and customer service infrastructure improvements. The Company funded the construction by obtaining and being subject to the obligations of a PennVest loan. The Company has been recovering their investment in the PennVest plant through a volume charge applicable to all customer classes. (CWC Statement No. 2R at 29-16)

13. In 1993, at Docket No. R-00932594, the Commission adopted, in Ordering Paragraph No. 4 of its Final Order entered June 1, 1993, the Joint Stipulation of Settlement, dated April 30, 1993, which was entered into by the Company and OCA. The Commission allowed a return-on and a recovery of (annual depreciation expense) the investment in the PennVest plant and facilities. The Joint Stipulation for Settlement on page 3, paragraph 7 (GDS Rebuttal Exhibit No. 1) sets forth the ratemaking treatment as follows:

> 7. Regarding the ratemaking treatment of Plant in Service, the Company agrees to Rate Base treatment for plant additions of $4,547,617, constituting amount attributable to PennVest funding, rather than apply a surcharge equal to the debt service on the PennVest loan. The following items are also reflected in the total revenue of increase proposed in this Stipulation: (a) the inclusion of these plant additions in the rate base, along with the return on the increase plant at an overall rate of return of 7.27%; (b) depreciation expense computed at the Company's current composite depreciation rate; (c) reflection of increased deferred income taxes. (CWC Statement No. 2R at 13:1-15; GDS Rebuttal Exhibit No. 1)

14. In a statement in support of the 1993 Joint Stipulation, current counsel for OCA stated the following:

> The Proposed Settlement provides for an overall base rate increase of $342,508 on an ongoing basis. This lesser amount is the result of permitting the Company to recover the costs of its PennVest-financed plant additions through rate base (including the provision of a reasonable rate of return and an allowance for depreciation expense), rather than through the imposition of a debt-service based surcharge. The OCA submits that, given the size (nearly 6,000 customers) and financial condition of the Company, the Company should not be permitted to impose a debt-service based surcharge. (Tr. 140-141; GDS Rebuttal Exhibit No. 1)

15. The PennVest volume rate was an unbundled rate base/rate of return rate which eventually became reconcilable. The 1997 Commission Order allowed Columbia Water to reconcile their rate, but the rate remained one developed based on rate base/rate of return. The reconciliation was to refine the rate to ensure it hit its rate base/rate of return income target. (Tr. at 139)

16. Columbia followed the Commission's orders with regard to reconciliations and providing information to the Commission. (Tr. at 145)

17. The PennVest plant was excluded from future rate case filings because the PennVest rate was a separate rate that had already been determined, and those two rates then were combined in the Company's subsequent tariff to equal one base rate volume rate. (Tr. at 163-164)

18. The Commission's policy statement at 52 Pa. Code § 69.361 was intended to apply to companies who had not yet elected rate base or surcharge treatment, and Columbia's election in 1993 precedes the 1994 policy statement. (Tr. at 179)

19. The ratepayers did not sign for the loan, promissory note or the pledge of accounts nor do they own the PennVest plant. (Tr. at 177)

20. OCA is recommending an addition to the Company's operating revenue for ratemaking purposes of $15,762. (OCA Statement No. 1 at 9:25-10:2); OCA Exhibit AEE-1, Schedule 1)

21. The Company has accepted the $9,932 increase to operating revenue for the sale of billing data. (CWC Statement No. 2R at 17:10-12)

22. Funds received from the sale of meters (salvage) and the damage of a fence and air compressor (insurance) must be recorded to the accumulated depreciation reserve and not recognized as revenue for book and ratemaking purposes. (CWC Statement No. 2R at 18:8-11)

23. Proper utility accounting dictates that a utility should not recognize the gain or loss on the sale or disposal of fixed capital plant assets. Any adjustments necessary for the disposal of utility plant should be booked to the respective depreciation reserves. (CWC Statement No. 2R at 18:12-16)

24. Columbia has claimed in its filing an amortization expense of $15,039 for the expenses incurred in the acquisition of Marietta Gravity Water Company at Docket Nos. A-2012-2282219 and A-2012-2282221. (CWC Statement 2R at 19:9; GDS Exhibit No. 1 at 1-14)

25. OCA recommends elimination of this acquisition expense. (OCA Statement 1 at 17:16-18; OCA Exhibit AEE-1S, Schedule 1S, line 14)

26. The Company is not claiming an acquisition premium under Section 1327, the Company is simply requesting a 15-year amortization of the expenses incurred, not the price of the assets in the sales agreement that was in excess of original cost minus depreciation.

(CWC Statement No. 2R at 19:9-12) The Company seeks the expenses for obtaining a new franchise and the right to serve from this Commission." (Tr. at 137-138)

27. The costs relative to the certificate of public convenience and regulatory approvals are $110,772 for legal services, $9,431.52 for consulting services, and $748.30 for newspaper publication. (Tr. at 138)

28. In OCA Statement No. 1 pages 22-23, OCA witness Everette recommended that Columbia's claim for engineering expense, in the amount of $5,505 be moved to rate case expense.

29. Mr. Weigel's expenses include ongoing monitoring of the Commission and regulatory advice in meeting Commission regulatory requirements. (CWC Statement 1R at 3:16-17)

30. Columbia has claimed pro forma bad debt expense in the amount of $11,000. (GDS Exhibit No. 1 at 1-15)

31. The customer's ability to pay their bills cannot be measured in a four-year average computation, and that in the real world of utility management there is recognition that with customer rate increases, bad debt expense will likely increase because additional customers become delinquent on their water bills. (CWC Statement No. 2R at 15:19-16:2)

32. The Company's filing has a known and measurable level of bad debt expense. (Tr. at 134)

33. The Company's position of using audited, known and measurable current numbers, instead of OCA's 4-year guesstimate is a more accurate way of predicting bad debt expense.

34. The Company had already allocated an average of 8% of its employees' time to the Marietta Division; however, the specific percentage varies by employee and the specific amount of time devoted to Marietta Division tasks. (CWC Statement 1R at 2:14-3:8)

35. Mr. Lewis is Vice President and General Manager of Columbia and he has been employed by Columbia for eight years and before that worked for ARRO Consulting, Inc., and provided engineering services to Columbia for approximately 15 years. (CWC Statement No. 1 at 1:7-17)

36. Mr. Lewis is responsible for the day-to-day management of the Company and his responsibilities include oversight and management of the business office (3 employees), the distribution department (9 employees), the water production department (5 employees), and several part-time/seasonal employees. (CWC Statement No. 1 at 1:20-23)

37. Mr. Lewis is a licensed professional engineer and his responsibilities include engineering, permitting and management of Columbia's technical needs, as well as, communication with regulatory agencies and local governing bodies. (CWC Statement No. 1 at 1:23-2:3) He reports directly to the President of Columbia; however, he also has significant interaction with the other Officers and with the Board of Directors. (CWC Statement No. 1 at 2:3-5)

38. The OCA's witness has never spent any time observing what amount of time the Columbia employees spend working on the Marietta Division tasks. (Tr. at 205) She did not even attend the tour of the Company's operations and facilities requested by OCA and I&E and held on July 24, 2013. (Tr. at 190)

39. A person's general job description is not used as a specific basis for assigning tasks. (Tr. at 107) The foreman's job description may include tasks that get completed in the Marietta Division (in fact they get completed in every water utility in Pa.), but that does not mean that the foreman will be the person actually assigned to complete those tasks. (Tr. at 107) The foreman spends nearly all of his time completing Columbia Division tasks. (Tr. at 107)

40. The Company's original allocation of 2.31% for the salary of the sales person was based upon time spent in the fourth quarter (of 2012) and it is based upon the way Columbia assigns employees to do work tasks. (Tr. at 109)

41. Health insurance costs vary widely from employee to employee. Some employees opt out of coverage. Some employees enroll just themselves while others enroll their entire families. (Tr. at 113-114)

42. The allocations that the Company provided take into account these discrete, employee-specific, varying health insurance costs. (Tr. at 114) The Company's allocations of employee health insurance benefits were based upon the percentage of the person's time allocated to the Marietta Division and the actual costs of the person's benefits. (CWC Statement 1R at 9:11-14)

43. The Company's allocation of employee health insurance benefits to the Marietta division were based upon the percentage of the person's time allocated to the Marietta division and the actual costs of the person's benefits. (CWC Statement 1R at 9:11-14)

44. The Company's allocations of pension expenses were based upon the percentage of the person's time allocated to the Marietta division and the actual costs of the person's benefits. (CWC Statement 1R at 9:11-14)

45. The Company provides Hershey Park tickets to its employees as an economic benefit as part of their overall compensation package. The employees use their ticket when they want during the year. The employee must use it on their own time, perhaps on a weekend, or they take a vacation day to use it. (Tr. at 112)

46. The Marietta Division has its own vehicle, and, thus, most of the vehicle costs are associated with that vehicle. (Tr. at 114) Many of the employees that do Marietta Division work do not use vehicles; for example, customer service personnel, the office manager, and the production superintendent. Even meter readers mainly walk and only use the vehicle to get to the service area. (Tr. at 114)

47. The Company's vehicle costs will go up if they are used substantially for the Marietta Division, and those additional costs will be allocated to the Marietta Division. (Tr. at 115)

48. The Company, based upon a notice from its insurance carrier received during this rate case that its vehicle insurance rates will be increasing, has adjusted its expense claim upward by $837 due to the increase in the vehicle insurance premium.

49. Workers compensation insurance premiums are based upon wages and the classification of the employee, and it is unreasonable to use a blanket amount to allocate and should be based on the actual amount of time allocated to the Marietta Division. Using the actual hours worked results in Columbia's 3.8% allocation. (CWC Statement 1R at 13:14-19)

50. The Company has increased its expense claim by $2,752 based upon information received from the carrier during this case due to an increase in the worker's compensation premium. (CWC Statement No. 1R at 13:21-22; DTL Rebuttal Exhibit No. 1)

51. The Marietta Division has different rates, and the Company needs to use separate accounting tools to properly track and account for the costs associated with the Marietta Division. (Tr. at 115) The auditors will use the separate books of the two divisions to prepare one consolidated tax return. (Tr. at 116)

52. With the separate divisions, Columbia will be preparing separate budgets, keeping separate books, and preparing separate depreciation calculations and accruals. The Columbia Division's accounting costs will not go down or somehow get shared with the Marietta Division, but instead will increase and the additional costs will get allocated to the Marietta Division. (CWC Statement 1R at 14:6-11)

53. The Company originally made an expense claim for Officers' salaries of $68,000. (GDS Exhibit No. 1 at 1-15) The claim was subsequently adjusted to $66,144 to reflect a 4.3% allocation of the Officers' salaries to the Marietta Division. (Tr. at 128; GDS Rebuttal Exhibit No. 3 (Revised) at 2)

54. The Company's claim for Officers' salaries is substantially less than the $80,800 that was approved by the Commission in Columbia's last rate case in 2008. *Pa. Pub. Util. Commn. v. Columbia Water Company,* Dkt. No. R-2008-2045157 (Final Order Entered June 10, 2009)

55. The Company has provided exemplary performance over the past several years. Its quality of service has been outstanding and it has found numerous ways to streamline its business and reach out to the community, all the while maintaining its staffing levels, thus saving its customers money. (CWC Statement No. 1 at 5:8-8:17; Tr. at 120-121)

56. Neither the Company's Officers nor Directors have had any raise in salaries or fees since 2009. (CWC Statement No. 1 at 17:17-18)

57. The Company's consistently outstanding regulatory performance and utility service is indication that the compensation is proper and necessary. (Tr. at 117)

58. Both OCA and I&E recommend adjustments to the Officers' salaries based on different allocations to the Marietta Division.

59. The Company, in response to OCA and I&E's direct testimony, has agreed to allocate 4.3% of it Officers' salaries and Directors' fees to the Marietta Division, thus reducing its claim for Officers' salaries to $66,144 and Directors' fees to $60,036. (CWC Statement No. 1R at 21:4-5; GDS Rebuttal Exhibit No. 3 (Revised), page 2)

60. Most customer-related activity tends to revolve around billing cycles, and that activity is what makes up a lot of the time that officers and directors spend. The Marietta Division work is additional work and in no way becomes shared work with the Columbia Division. The Company's 4.3% allocation represents a representative allocation for the Marietta Division's portion of the work done by the officers and directors. (Tr. at 117-118)

61. The Company originally made an expense claim for Directors' fees of $62,165. (GDS Exhibit No. 1 at 1-15) The claim was subsequently adjusted to $60,036 to reflect a 4.3% allocation of the Directors' fees to the Marietta Division. (Tr. at 128; GDS Rebuttal Exhibit No. 3 (Revised) at 2)

62. The per-meeting cost of the Directors' fees in this filing is $570. (CWC Statement No. 1R at 19:7-8)

63. The Company's estimated total rate case expense as submitted into the record at the September 5, 2013 hearing through CWC Rejoinder Exhibit No. 6 is $258,412.05.

64. Columbia Water is recommending the use of its pro forma capital structure at December 31, 2013 of 35.60% long-term debt and 64.40% common equity with cost rates of 5.00% and 11.35%, respectively. (CWC Statement No. 3 at 2:2-4)

65. The circumstances of the instant matter are not entirely different than CWC's most recent case where this Commission approved the use of their pro forma capital structure at December 31, 2008 of 35.80% long-term debt and 64.20% common equity for ratemaking purposes. (CWC Statement No. 3R at 2:10-3:6)

66. Columbia Water is recommending a return on equity ("ROE") of 11.35%, based on an assessment of market-based cost of common equity models using a proxy group of water companies. (CWC Statement No. 3 at 2:22-3:11; Schedule DWD-1)

67. I&E is recommending a ROE of 9.15% (I&E Statement No. 1 at 5:4-5) and OCA recommends a ROE of 8.25%. (OCA Statement No. 2 at 3:19-22)

68. Company Witness D'Ascendis demonstrated that the DCF model understates investors' required return when book value is significantly lower than market value, as currently is the case. (CWC Statement No. 3R at 6:7-11:25)

69. The use of multiple market-based cost of equity models adds reliability when arriving at a recommended common equity cost rate and is supported by the financial literature. (CWC Statement No. 3R at 5:5-6:21)

70. Company Witness D'Ascendis performed a DCF analysis on a proxy group of nine water companies comparable in risk to Columbia Water. The proxy group of water companies was selected from companies included in the AUS Utility Reports Water Utility Group.

(CWC Statement No. 3 at 12:12-13:11) Mr. D'Ascendis's DCF study for the proxy group produced an equity cost rate of 8.48%. (CWC Statement No. 3 at 4:7; Appendix B at Schedules DWD-1 and DWD-4)

71. Mr. D'Ascendis's RPM analysis produced an equity cost rate of 12.08% for the proxy group. (CWC Statement No. 3 at 4:8; Appendix B at Schedule DWD-6)

72. In Mr. D'Ascendis's studies, the average and median CAPM/ECAPM cost rates were 10.44% and 10.53%, respectively, while the average of those CAPM/ECAPM cost rates for the proxy group was 10.49%. (CWC Statement No. 3 at 4:9, Appendix B, at Schedule DWD-7)

73. Mr. D'Ascendis selected a group of twenty-nine domestic, non-price regulated companies similar in total risk to the proxy group of water companies and applied the three market-based cost of equity models to determine a cost of equity for this alternative proxy group. This is an appropriate check on the cost of equity, because the legal standard applicable to the rate of return requires that the authorized rate of return be commensurate with the return that can be earned in an enterprise with "comparable risk" – but it does not limit comparability only to regulated utilities. Application of the three costs of equity models to the non-price regulated proxy group resulted in a cost of equity of 11.38% using the DCF model, 10.69% using the RPM and 10.50% using the CAPM/ECAPM. The indicated common equity cost rate resulting from the application of all three of the cost of equity models to this proxy group is 10.87%. (CWC Statement No. 3 at 4:13; Appendix B, Schedule DWD-9)

74. The indicated common equity cost rate for Columbia Water before adjustments to reflect certain differences in risk between Columbia Water and the proxy group of water companies, including performance factor and acquisition premiums proffered by Company Witness David Lewis, is 10.60%. (CWC Statement No. 3 at 4:15-16); Appendix B at Schedule DWD-1)

75. The Company made four adjustments to the common equity cost rate to account for (1) the difference in financial risk related to the Company's higher equity ratio, as reflected in Standard and Poor's bond ratings, (2) the difference in business risk attributable to the smaller size of Columbia Water's jurisdictional rate base compared to the proxy group of water companies, (3) the rate of return premium that the Pennsylvania Public Utility Commission ("PA PUC") grants for performance factor (management efficiency), and (4) the rate of return premium granted by the PA PUC regarding the demonstrated track record of a utility acquiring less viable systems. (CWC Statement No. 3 at 33:13-37:13) After these adjustments, The Company's indicated common equity cost rate for Columbia Water is 11.35%. (CWC Statement No. 3 at 37:5)

76. The Company's General Manager, Dave Lewis, has established that the Company meets or exceeds all Federal and State water quality standards and requirements. For example, the Company routinely monitors for over 90 different contaminants and, in 2012, the Company collected approximately 160 water samples to test for compliance with regulatory requirements. Columbia had no violations and all of its testing confirmed that it is operating well within regulatory requirements. In June of 2013, the Company

completed its lead and copper testing at 30 locations within the Columbia Division and was found to be in compliance with lead and copper regulations. (CWC Statement No. 1 at 5:8-16)

77. From 2010 until present, the Company has had only two operational issues. In September 2011, Columbia issued a boil water notice as a precaution due to flooding that occurred as a result of Tropical Storm Lee; however, no water quality issues were detected and the notice was issued as a precaution only. In March 2013, Columbia issued a "Do Not Consume" Notice in response to someone who broke into a locked finished water storage tank. The Pennsylvania Department of Environmental Protection ("Pa. DEP") found that the water was safe to consume and the notice was lifted. Pa. DEP complimented Columbia on how the situation was handled. (CWC Statement No. 1 at 5:18-6:3; Appendix 2 to CWC Statement No. 1)

78. The Company's water pressure throughout its system meets all standards. (CWC Statement No. 1 at 6:11)

79. Since 2010, the Company has had no informal complaints and only one formal complaint filed against it with the Commission. The formal complaint alleged that Columbia caused a leak in the customer's plumbing when a meter was replaced. The issue was resolved by the Company crediting the customer's account by $75.00. Furthermore, the Company has consistently had UCARE statistics that are equal to or better than all the other Class A utilities. (CWC Statement No. 1 at 6:13-19)

80. Since 2010, the Company has received no complaints regarding the taste or the odor of its water. (Tr. at 120-121)

81. In 2010, Columbia's Production Superintendent, with the assistance of operators, was able to identify better treatment chemical combinations and dosing rates to lower chemical costs while maintaining superb water quality standards. The Distribution Department is fully capable and equipped to construct water main extensions and make water main repairs. This capability allows the Company to install nearly twice the amount of pipe annually for the same cost as it would if it contracted out those services. (CWC Statement No. 1 at 7:4-10)

82. Columbia has also taken steps to assist the communities it serves by extending into areas with immediate needs. (CWC Statement No. 1 at 7:13-22)

83. The Company has also taken steps to minimize its environmental footprint by minimizing its power consumption. This occurred when the Company chose to use solar powered mixers for its Prospect Tank and its Manor/Mountville Tank to address the need for mixing in those tanks. This has proven to be a long-term solution to the mixing needs of those tanks, while minimizing the Company's power consumption and environmental footprint. (CWC Statement No. 1 at 8:4-9)

84. Columbia is currently in the process of establishing an e-Billing program to give its customers more options for receiving and paying their water bills. More and more customers are doing business electronically and Columbia is taking steps to meet this

growing demand for electronic services. This program will allow the customer to elect to receive and pay bills electronically which, in turn, will allow Columbia to process an expanding customer base without increasing staffing. This program also has the side benefit of minimizing the Company's environmental footprint by reducing the resources needed to process water bills. (CWC Statement No. 1 at 8:10-17)

85. Columbia, a larger more viable system, has a history of acquiring less viable water systems. For instance, it acquired the Mountville Municipal System in 1998 and, at the end of 2012, acquired the Marietta Gravity Water Company – the Commission finding such acquisition to be in the public interest. The Company has made improvements to service for both systems. (CWC Statement No. 1 at 10:5-10)

86. At Mountville, the Company constructed a new 1 million gallon finished water storage tank and booster pumping station to serve the Mountville pressure zone, it made modifications to the Mountville pressure zone to provide more uniform and acceptable pressures, it replaced all of the meters since they had not been tested or replaced previously, and it replaced old-age water mains on numerous streets in the Borough. (CWC Statement No. 1 at 10:11-16)

87. At MGWC, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] (CWC Statement No. 1 at 10:17-11:4)

88. Columbia has complied with Ordering Paragraph No. 5 of its 2008 Rate Case Order, and has provided officers' and directors' hours in its testimony (CWC Statement No. 1 at 15:12-16 and 17:3-5)

89. Both positions are salaried positions and never were and never will be hourly positions. (CWC Statement No. 1R at 21:10-16)

APPENDIX B

APPENDIX B

PROPOSED CONCLUSIONS OF LAW

1. The Pennsylvania Public Utility Commission ("Commission") has jurisdiction over the Parties and subject matter of this proceeding. 66 Pa.C.S. § 101, *et seq.*

2. A Public Utility seeking a rate increase has the burden of proof to establish the justness and reasonableness of each element of its request. 66 Pa.C.S. § 315(a).

3. A Public Utility is entitled to rates that will allow it to recover its costs for expenses that are reasonably necessary to provide service to its customers. *Western Pa. Water Co. v. Pa. Public Utility Commission,* 422 A.2d 906 (Pa. Cmwlth. 1980).

4. The Commission must authorize a sufficient, or fair, rate of return to public utilities to ensure adequate revenues to cover operating expenses, debt serviced expenses and common and preferred (if necessary) dividends, as well as to maintain the financial integrity of the utility and enable the public utility attract needed debt in equity capital in the marketplace or on reasonable terms, in competition with firms of similar risk. *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944) and *Bluefield Water Works Improvement Co. v. Public Service Commission,* 262 U.S. 679 (1923).

5. It is important that there be enough revenues not only for operating expenses, but also for the capital costs of the business. These include service in the debt and dividends on the stock. By that standard, the return to the equity owner should be commensurate with returns on investment and other enterprises having corresponding risk. That return, moreover, should be sufficient to ensure confidence in the financial integrity of the enterprise, so as to maintain credit

and to attract capital. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).

6. Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the service are unjust, unreasonable and confiscatory, and that their enforcement deprives the public utility company of its property, in violation of the Fourteenth Amendment. *Bluefield Water Works Improvement Co. v. Public Service Commission,* 262 U.S. 679, 690 (1923).

7. Pennsylvania Courts and the Pennsylvania Public Utility Commission have adopted the U.S. Supreme Court legal standards regarding the rate of return in *Hope* noting this case requires the Commission to balance utility company and ratepayer interests in setting rates. *Pennsylvania Electric Co. v. Pa. Public Utility Commission,* 509 Pa. 324, 502 A.2d 130 (1985).

8. Columbia's upward adjustment of 25 basis points (0.25%) to its return on equity in order to reflect its acquisitions of and improvements to smaller, less viable utilities, namely Mountville and Marietta Gravity, is consistent with the Commission's Policy Statement in 52 Pa. Code § 69.721(g).

9. Columbia's second 25 basis points (0.25%) upward adjustment to reflect its exemplary performance is consistent with Commission policy. 66 Pa.C.S. § 523.

10. The use of Columbia's actual structure for ratemaking purposes in determining its rate of return is justified and needed to support the Company's continued efficient operations and high level of performance.

11. Columbia has demonstrated that the costs associated with its various expense claims are just and reasonable.

12. Columbia's inclusion of its remaining used and useful undepreciated PennVest Plant and facilities in rate base is appropriate.

13. The requirement that Columbia's Officers and Directors keep timesheets to account for their time spent on Company business is discriminatory and an unnecessary burden to each member, creates distracting environment, opens them up to additional legal exposure and is a requirement that no other Class A utility in Pennsylvania is required to do, and is unreasonable.

14. Columbia has fully supported its revised operating revenue claim of $949,426 which entitles it to implement rates designed to produce its as-filed increase in annual operating revenues of $773,210.

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APPENDIX C

APPENDIX C

PROPOSED ORDERING PARAGRAPHS

IT IS ORDERED:

1. That Columbia Water Company ("Columbia") is authorized to implement rates designed to produce increased annual operating revenues of $773,210

2. That Columbia is authorized to file a Tariff or Tariff Supplement containing rates, provisions, rules and regulations, consistent with the findings herein, designed to produce annual revenues not in excess of $4,991,090.00.

3. That the Tariff or Tariff Supplement may be filed on less than statutory notice and, pursuant to the provisions of 52 Pa. Code §§ 53.31 and 53.101, may be filed to be effective for service rendered on or after the date of entry of the Commission's Opinion and Order.

4. That Columbia shall file detailed calculations with this Tariff filing, which shall demonstrate that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.

5. That Columbia shall allocate the authorized increase to operating revenues to each customer class and a rate schedule in manner prescribed in the Commission's Opinion and Order.

6. That Columbia shall comply with all directives, inclusions and recommendations contained in the instant Opinion and Order, whether or not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

7. That Columbia, in future rate cases, shall not be required to provide an accounting of hours devoted by its Officers to company business, in their roles as Officers and Directors, in relation to all other business interests.

8. That the complaints filed against the proposed rate increase by the Office of Consumer Advocate (at Docket No. C-2013-2363612), the Office of Small Business Advocate (at Docket No. C-2013-2363728), and by Mr. Vincent Collier (at Docket No. C-2013-2364726), be terminated and marked Closed.

9. That the inquiry and investigation of the Pennsylvania Public Utility Commission at Docket No. R-2013-2360798 be terminated and marked Closed.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document (Proprietary and Non-Proprietary versions) upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

By First Class Mail (2 copies)
and Electronic Mail

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Dated this 26th day of September, 2013